AN INTRODUCTION
TO THE STUDY OF
INDIAN ECONOMICS

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PREFACE TO THE THIRD EDITION

THE book has been thoroughly revised and brought up to date for this edition. A considerable amount of fresh matter has also been incorporated. Without making a formal division the book is, in reality, being divided into two parts, the first part (Chapters I to XI) being mainly analytical and descriptive and the second part (Chapters XII to XXIX) dealing with some economic problems in a critical and constructive manner. The best thanks of the author are due to Dr. Sarojkumar Basu, M.A., Ph.D., Head of the Department of Commerce, Calcutta University, Dr. N. N. Das, M.A., Ph.D., Vice-Principal, Maharaja Manindrachandra College, Principal Dwijadas Chaudhuri, M.A., of Contai College and Sri Nirmalkumar Ray, M.A., LL.B., Lecturer, City College, for the valuable assistance given by them in the preparation of this edition and to Sri Jnananjan Pal, M.A., Sri Satkari Mitra, M.A., Professor, Asutosh College and Sri Naresnarayan Chaudhuri, M.A., LL.B., for seeing the book through the Press.

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CHAPTER I

THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with a knowledge of the physical factor. This subject may be considered, for our purpose, under the five heads of geographical situation, geological structure, climate, flora and fauna, and facilities of communication.

1. GEOGRAPHICAL SITUATION

Extent

India, today, though diminished in size after Partition, still covers a wide area. Before Partition, India contained an area of 1,581,000 square miles and measured about 2,000 miles from north to south and more than 1,900 miles from east to west. At present the total area of the Indian Union is about 1,221,000 square miles. Its land area has considerably diminished but its sea frontier has not suffered much contraction.

Boundaries

The Himalayas, with their snow-clad peaks, form the northern boundary of this vast country. Undivided India was surrounded on all sides of the land frontier by lofty mountains. But Partition has deprived India of its basic advantage of being a geographical unit separated by nature from the rest of the world. The land boundaries of India on the west as well as on the east are at present artificial. Western Pakistan lies to the north-west of India, and on the east Eastern Pakistan forms practically a wedge between West Bengal and Assam.

Natural Divisions :

From the geographical point of view, India today may be divided into three major regions : the Himalayan region of the north, the Deccan Plateau of the south, and the vast stretch of plains standing between these two regions. Within its own borders the country presents so many marked differences in physical features that India is often described as a continent rather than a country.

Northern India

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a vast area, are the most striking feature in the geography of India. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of its people. Below this great range lies the sub-montane region with its dense forests and an inhospitable climate. Next comes the great plain of Northern India, watered by three great systems of Himalayan rivers,—the Indus, the Ganges, and the Brahmaputra.[1] Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and waterlogged, these features reaching their extreme points in the Great Desert on the west, and in Assam on the east. To the south lies the peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1,500 feet, and is cut into a number of deep valleys through which seven great rivers carry their waters to the Arabian Sea and the Bay of Bengal.

Peninsular India

2. GEOLOGICAL STRUCTURE

Geology of India in ancient ages

India, in the ancient geological ages was very different from what we find her now. Geologists say that in the earliest period she was represented by the southern peninsula and was connected with Africa by land, while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and the various kinds of soils and minerals found at present in the country owe their existence to them.

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of

---

[1] Today, neither the whole of the Himalayan range nor the entire Northern Great Plain belongs to India. Large parts of both the Indus Valley and the Brahmaputra Valley are now included in Pakistan.

Gujrat, Rajputana, East Punjab, Uttar Pradesh, West Bengal, Bihar, extensive tracts in Assam, the Godavari, Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places. The alluvial soils are, on the whole, rich in chemical properties. A large variety of *rabi* and *kharif* crops are grown on alluvial soils.

Trap soils

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad and Kathiawar. In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. Cotton, wheat, linseed, and millets are the chief crops grown on it.

Black cotton soils

So much about the special varieties of soils. The rest of India may be described as the " crystalline soils tract." They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the most important being rice.

Crystalline soils

In the midst of these varying features one characteristic is found to be common to almost all soils, *viz.*, their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.

Varying features Comparative dryness

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

Mineral resources

The mineral wealth of India has not yet been fully ascertained ; but judging from the amount of actual production, the existence of mines, and the possibilities as shown by investigations, we may say that India is rich in mineral resources. V. Ball quotes the statement of Megasthenes that " India has underground numerous veins of all sorts of metals," and regards it as absolutely true. The mineral resources are widely distributed over almost the whole area of the country. It will be useful if we briefly describe the chief varieties of minerals.

Coal

Coal is the most important of the mineral products of India. Its quantity is large and the quality is good. It is found chiefly in West Bengal, Bihar, Assam and the Central Provinces, and in smaller quantities in Orissa, Central India, West Punjab and Kashmir. Iron ores of a superior quality are to be found in abundance in various parts of India. The chief iron-ore areas are Barakar in West Bengal; Singhbhum in Bihar; Mayurbhanj and Keonjhar in Orissa State; certain districts of the Central Provinces; the eastern half of Central India; several parts of the State of Bombay; and Mysore. It is also found in smaller quantities in East Punjab, Uttar Pradesh, Kashmir, and Rajputana. In recent years, iron-ore bodies of great size and richness have been recognised in a belt running through the southern districts of Bihar and constituting what is one of the most important groups of iron-ore deposits in the world.

Iron

Petroleum

Petroleum is found chiefly in Assam and East Punjab. The petroleum resources of India are confined to the two systems of folded rocks on the eastern and western Himalayas. India is definitely deficient in petroleum. In recent years attempts have been made to find new sources of oil. Rock-salt is mined or quarried, the chief source of supply being the famous Salt Range of Rajputana. There appears to be no workable occurrence of tin ore in India, but a small quantity is to be found in the Hazaribagh district of Chota Nagpur. Ores of tungsten (or wolfram) occur in close association with tin ores.

Rock-salt

Tin

India was, in ancient times, famous for her precious metals. The most important of these metals is gold, which is found in fairly large quantities in Mysore. Some amount is also found in the mines of Hyderabad and a few other places. Besides occurring in the free state in quartz veins, gold is sometimes found in the sulphide minerals. Thus, it occurs in Sikkim in mixed sulphide lodes and in the copper-bearing lodes in the Jubbulpur district of the Central Provinces. In many parts of India, particularly in Bihar, Chota Nagpur and Assam, small quantities of gold are obtained from river gravels by the indigenous process of washing. No silver mines as such have yet been discovered in India, but the metal is obtained as a by-product in the mining of gold and lead. Nearly the whole of the Indian silver production is obtained from the gold ores of the Kolar field in Mysore.

Gold

Silver

Copper

Copper is widely distributed over the whole of India. It is found chiefly in Chota Nagpur, the Central Provinces, Rajputana, many parts of Southern India, and various places along the Himalayas. Lead occurs chiefly in certain districts of Bombay. Antimony deposits are found in East Punjab and Mysore.

Lead

Antimony

Manganese

Manganese occurs in such abundance in India that she now alternates with Russia as the first manganese-producing country in the world. The most important deposits occur in the Central Provinces, Madras, Central India, Mysore, and Chota Nagpur.

Mica

Mica is one of the most important mineral products. India turns out more than three-fourths of the total mica supply of the world. The main source of production is in the Hazaribagh and Gaya districts of Bihar. It also occurs in the Nellore district of Madras, in Mysore, and in some parts of Rajputana.

Precious stones

Diamond

Sapphire

Various kinds of precious stones are to be found in different parts of India, important among them being diamond and sapphire. Diamonds occur chiefly in Madras, the Central Provinces, and in Panna and other parts of Central India. The chief seat of sapphire is Kashmir, but the mines are said to be exhausted.

Ilmenite Monazite

Barytes

Since 1937 India has become one of the largest producers of ilmenite in the world. The material is obtained from the beaches along the Travancore Coast where monazite, zircon and rentile are also found in association. Barytes are chiefly obtained from the Cuddapah District of Madras.

Miscellaneous minerals

Besides these, there are many kinds of miscellaneous minerals. Common stone and marble also are important, they being the chief materials used for building and ornamental purposes.

Mineral springs

Numerous mineral springs are found in different parts of India, but very few of them have so far been utilised for the benefit of the country. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of Bombay State, and the many springs along the foot-hills of the Himalayas.

Materials for industries

Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Bihar, which is the chief source of the compound in India, are ideal. India is very deficient in her supply of phosphates. The only deposit worth noticing is in the Trichinopoly district of Madras. In view of this deficiency the export of phosphates in the form of bones is a circumstance to be greatly deplored. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir. Soda salts are obtained from the soil in various parts of the country.

3. CLIMATE

Sharp contrasts in climate

The climate of a place is determined by various factors, the chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and in keeping within the borders of India the vapour-bearing winds of the South-West monsoon, the country may be divided, for meteorological purposes, into two parts : Peninsular India and Northern India.

The Peninsula,— variations slight

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

Northern India,— severe heat and extreme cold

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and during different seasons. In East Punjab we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In West Bengal and Assam, the winter is mild and the summer is moderately hot. Again, East Punjab and Rajputana are exceedingly dry, while the atmosphere of Assam is always saturated with moisture.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent disturbed by the periodical or monsoon winds of which we shall speak presently.

The seasons

Winter, dry summer and rainy summer

The Indian year is divided into six seasons ; but, for economic purposes, it may be divided into two—winter and summer, —the latter being subdivided into dry summer (April, May, and June) and wet summer (July, August, and September). The seasons are of the greatest importance in the economic life of India, as they are accompanied by an alternation of the meteorological conditions which produces momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

The Monsoons

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the Equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator. Consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the cooler air from near the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. The air-movement is strengthened by the normal trade-wind blowing south of the Equator. This is the South-West monsoon. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The South-West monsoon usually establishes itself in Bombay and Bengal about the middle of June, and before the end of the month it extends over practically the whole of Northern India.

South-West monsoon

The South-West monsoon reaches India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, East Punjab, and a part of the Central Provinces, and the latter to the rest of India including West Bengal. India gets nearly 90 per cent. of her annual rainfall from the South-West monsoon. This monsoon usually continues till September.

Two currents: Arabian Sea current, Bay of Bengal current

In October and November, the temperature over the land in India becomes lower than that over the sea near the Equator. Consequently the barometric pressure becomes higher, and winds begin to blow towards the Equator. This is often alluded to as the North-East monsoon, but it is, in reality, the normal north-east trade-wind. Being of land origin, it does not contain much moisture, and is, therefore, called the dry monsoon, in

North-East monsoon

contradistinction to the South-West monsoon which is wet. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is small. Some amount of rain also falls in East Punjab during the winter months, which is probably due to local storms.

Amount of rain determined by—

Situation

Height

Moisture

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the South-West monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The east coast of Madras does not receive much rain from the South-West monsoon, for it does not lie in the path of the winds. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Thus the normal annual rainfall in the Cherapunji Hills is 460,″ while in some parts of Rajputana it is as low as 8.″ [1]

Importance of rainfall

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful; in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has often been described as a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons, and natural water-supply is the chief factor which determines the density of population and the economic and social conditions in any particular part of India.

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[1] In view of the great importance of rainfall in India, the Government should make their meteorological forecasts more scientific and helpful to the cultivators.

Influence of climate on physique and character

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A hot and moist climate tends to cause much fatigue after moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of disease also render the body weak and reduce the span of life. The cumulative effect of all these causes on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

4. FLORA AND FAUNA

Vegetable life

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are: Rice, coffee, millet, sugar-cane, cinchona, jute, spices, rubber and gutta-percha; pineapple, bananas, and other kinds of tropical fruits. The chief sub-tropical products grown are: Cotton, tobacco, opium and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, timber and indigo.

Tropical, sub-tropical and temperate zone products

Animal life

Animals are of great use for purposes of cultivation as well as of draught. At one time India possessed a fairly adequate supply of good and serviceable cattle. But of late there has been a great deterioration in the quality and diminution in the quantity of livestock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases of various sorts. Besides, a lack of proper attention to the question of breeding has been the source of much harm. This paucity of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. Bullocks are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts of the country. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every State. Horses thrive best in Northern India. The donkey is a very useful beast of burden, especially in some parts of Northern India. The camel is found serviceable in the sandier parts of the country, chiefly for purposes of conveyance. The region in which good cattle is reared includes East Punjab, Kashmir, Rajputana and Kathiawar, where rainfall is not excessive.

Animal products

Products obtained from animals, besides milk, are hides and skins, bones, wool, wax, and ivory, all of which are articles of utility and in demand.

Aquatic products

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint.

5. FACILITIES OF COMMUNICATION

Communication easy in Northern India

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tributaries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also affords facilities of transport. The eastern tributaries of the Indus are navigable by small boats, and by steamers during only a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible in certain parts of the peninsula only with the aid of much engineering skill. The rivers also are not quite useful as waterways, most of them being too impetuous in times of flood and too scantily supplied with water at other times.

but difficult in the peninsula

The sea, the great highway

The long sea-board of India offers facilities of communication in the coast districts of the country. The number of natural harbours, however, is comparatively few, and during the monsoons the Indian Ocean becomes exceedingly rough. But in spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world.

Natural advantages many, disadvantages few

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of its people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature; but it would be a mistake to suppose that this dependence is absolute. Man can, in some measure, modify his environment. And the people of India can, by their knowlege and enterprise, control the forces of nature to a very large extent.

Dependence on nature not absolute

Natural obstacles surmountable

The productiveness of land depends on the fertility of the soil. But natural fertility is increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest, while the worst land can be converted into the most fertile by the application of proper manures and the adoption of well-regulated methods of agriculture. In mining, the extension of knowledge may lead to the discovery of new minerals or the artificial manufacture of useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable; but even here modifications may be secured in various ways. Afforestation may lead to an increase of rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes, and the re-excavation of silted rivers may also affect for the better the climate of the country, the health of the people, and the moisture conditions of the land. The rigours of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined, partly by physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new varieties may be made to grow. So also, the breed of cattle may be improved and new breeds may be introduced.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Railways and motor vehicles have penetrated into places which would otherwise have remained inaccessible. The formidable ocean now affords the easiest and cheapest means of transport, while recent developments in radio and air services bid fair to abolish distance altogether. The post office, the telegraph and the wireless are not only the most important unifying factors of the country but they help to bring India into close contact with the rest of the world.

CHAPTER II

THE SOCIAL STRUCTURE

THE PEOPLE

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human element.

Population

The total population of India, excluding Jammu and Kashmir State, according to the 1951 census, is 356,891,624.

Of this, the male population is 183,384,807 and the female population, 173,506,817.

This represents an increase of about 42.06 millions or 13.4 per cent. increase over the population of 1941, which was 314.83 millions.

The population figures State-wise are :—

Name of State	Persons
Part A States :	
(1) Assam	9,129,442
(2) Bihar	40,218,916
(3) Bombay	35,943,359
(4) Madhya Pradesh	21,327,893
(5) Madras	56,952,332
(6) Orissa	14,844,293
(7) Punjab	12,638,611
(8) Uttar Pradesh	63,254,118
(9) West Bengal	24,786,683
Part B States :	
(1) Hyderabad	18,652,964
(2) Jammu and Kashmir	..
(3) Madhya Bharat	7,941,642
(4) Mysore	9,071,678
(5) P. E. P. S. U.	3,468,631
(6) Rajasthan	15,297,979
(7) Saurashtra	4,136,005
(8) Travancore-Cochin	9,265,157

Name of State	Persons
Part C States :	
(1) Ajmer	692,506
(2) Bhopal	838,107
(3) Bilaspur	127,566
(4) Coorg	229,255
(5) Delhi	1,743,992
(6) Himachal Pradesh	989,437
(7) Kutch	567,825
(8) Manipur	579,058
(9) Tripura	649,930
(10) Vindhya Pradesh	3,577,431
Part D Territories and other areas :	
(1) Andaman and Nicobar Islands	30,963
(2) Sikkim	135,646

In the whole country there are on the average 280 persons to the square mile. But the distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rainfall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions to this general rule. The greatest density is to be found in the State of West Bengal, the next densest tract being the Gangetic plain of the Uttar Pradesh.

Population mainly rural

Towns comparatively few

The people for the most part live in villages. Only a little over 14 per cent. of the population is found in towns with over 5,000 persons each. The proportion of the urban to the total population is the highest in Bombay and the lowest in Assam. There was a time when the urban population was larger. But with the decay of the industries, the towns sank in importance, and there was a tendency for a larger and larger proportion of the people to become rural. In recent years, however, a tendency working in the opposite direction has become discernible ; and towns are once again beginning to take their proper place as centres of thought, culture and industry in the life of the nation.

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limits for active work in India may be put at the ages of 15 and 50. Persons between these limits constitute more than half the population.

The most important factor to be considered in dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of workers in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation.

Dynamics of population

So much about what may be called the statics of the population. But the dynamics of the population are also important. Changes are effected by three factors, namely, birth, death and migration. We shall briefly notice each of them.

Marriage

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average birth-rate in India is 25.4 per thousand of the population.

Death

The increase or decrease of population depends not only upon the birth-rate, but also upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rates in other civilised countries. The average death rate is 17.1 per thousand of population. The rate of infant mortality is 131 per thousand of live births. The high rate of mortality in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water and insanitary conditions.

Migration : (a) internal

Migration is another factor which affects the size of the population. Migration is of two kinds : internal and external. Internal migration may be casual, temporary, periodic, semi-permanent or permanent. Casual or temporary movement of the people from one State or district to another goes on continually. For instance, the factory hands in the Calcutta mills are drawn almost entirely from up-country. Periodic movements are due to the seasonal demand for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration—or colonisation—takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of the labour conditions in other parts, all tend to keep them tied to their native villages. The number of persons recently displaced from East Bengal, West Punjab and Sind totals 7,479,278, spread all over India. This displacement was due to communal trouble.

(b) external

(i) emigration

(ii) immigration

External migration may take the form either of emigration or of immigration. The former serves as an outlet for the surplus population of the country; but the actual total number of emigrants from India is so small that, for practical purposes, it is not of much importance. The number of permanent immigrants into the country is even smaller.

(c) from occupation to occupation

The caste system and social customs used in days of old to prevent absolutely the movement of labour from occupation to occupation. The influence of caste and of customs, is however, growing less every day, and restrictions are gradually passing away.

During the last half-century, the population of India has largely increased. This fact has caused grave anxiety to some political thinkers. But, as Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food, but between population and wealth. If population increases, but the production of wealth remains stationary or increases in a lower ratio than the growth of population, the only possible consequence would be the greater misery of the people. If, on the other hand, wealth and productive efficiency are increased simultaneously with the increase of population, the country may be able to support a much larger population than it does at present. This view of the future is held by many eminent persons. A distinguished member of the Indian Civil Service says: "Apart from the non-agricultural forms of employment which are rapidly growing in importance, it seems certain that, even in the most crowded tracts, more scientific farming would greatly increase the present produce of the soil. There are, besides, many parts, ..., where, even under present conditions, ample scope remains for expansion; and many others, such as Western Rajputana, where, with the aid of irrigation, crops might be grown on what is now a sandy desert."

CHAPTER III

THE SOCIAL STRUCTURE (*Continued*)

SPECIAL FEATURES OF INDIAN SOCIETY

1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

An essential feature of the caste-system is that "birth determines irrevocably the whole course of a man's social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."

Essential feature

Islam, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to some extent to the Muslims.

Social distinctions among Muslims

The caste-system has undoubtedly many undesirable features, but it has some good points which are not appreciated by careless observers. Whether good or bad, changed conditions have led to a modification of the system. Occupation is not now necessarily the indication of a man's caste. Members of different castes are at the present day to be found in almost every occupation. Caste rules have now become less rigid than before, and the modern tendency is to eliminate from the system such features as have been found unsuited to the economic progress of modern society.

Caste-system modified

An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages, to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes. Its chief objects were to regulate competition among its own members and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards,

The caste-guild :

Its functions

Its objects

and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

There was a time when caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of pre-British India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India, and even where they exist they do not exercise anything like their old influence. But, there are trade or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership of such guilds is not necessarily confined to one caste. The bond of union is not so strong, and they lack the unity of sentiment and the efficiency of organisation which ensure the success of the trade-unions of modern Europe and America.

Modern trade-guilds

Muslim guilds

The Muslims of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. In some trades the guilds are well organised.

2. THE JOINT-FAMILY

Family the unit of society

Consumption in common

In India, the unit of society is not the individual but the family. Among the Hindus, this family includes not only the husband, the wife, and the children, but many more members in addition. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Joint property

The Hindu law of property is essentially different from the laws which regulate property in the West. In Europe and America, ownership, as a rule, is single, independent, and unrestricted. In India corporate property is the rule, and absolute unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system which was, and to some extent still is, the backbone of Hindu society.[1]

Originally, every Hindu family, with all its property, was not only joint but indivisible.[2] Now it has ceased to be so; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or the equality of all members.

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[1] Mayne, *Hindu Law*.

[2] *Ibid.*

Different schools of law: Mitakshara

There is a great deal of divergence in the doctrines of the two main schools of Hindu law. The Mitakshara school, which governs the greater part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school which governs Bengal. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager, and has no right to sell or otherwise dispose of the property, except for the benefit of the family or for legal necessity.

Dayabhaga

Dayabhaga, however, gives greater powers to the head of the family, and, according to legal decisions, he is considered to be the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it.

The Joint-Family system has existed in India for ages, but is now in a state of decay. It is regarded as a blessing by some thinkers and as a curse by others.

Mahomedan system

Muslims generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union is not so complete as among the Hindus and, consequently, the system is far less rigid.

3. THE LAWS OF SUCCESSION

Succession: among Hindus

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children it passes to the next of kin.

among Mahomedans

Under the Muslim law, the property is divided, on the demise of its owner, among a comparatively large number of heirs, many of the near relations obtaining shares even when there is male issue.

No primogeniture

Division of property : its advantages

disadvantages

The law of primogeniture does not exist in India except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu law of inheritance, property, whether real or personal, is divided among a number of persons. Among Muslims the division goes further. The result of division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. Such a system promotes the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it hinders large-scale production for want of a concentration of capital; and in a country where the joint-stock and limited liability company systems are not yet fully developed, it tends to arrest industrial progress.

4. THE VILLAGE SYSTEM

As we have already seen, the great body of the people of India is rural. The reason is that the occupation of agriculture makes it necessary for the people to live in villages.

Village communities

Sir Charles Metcalfe's view

From the earliest times, the village has always been the unit of administration in India. The people gather together in villages for better protection and mutual assistance. A system of village communities was developed in most parts of the country, which lasted many hundreds of years. More than a century ago, Sir Charles Metcalfe gave an excellent description of these organisations. He said : " The village communities are little republics, having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down ; revolution succeeds to revolution ; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same." Although the village communities are now in a state of decay, they have not yet been entirely overthrown.

Two kinds :

Raiyatwari

There are two types of villages—the Raiyatwari and the Landlord- or Joint-village.[1] In the first, the village contains a number of cultivating holders who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection

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[1] *Vide* Baden-Powell, *Land Revenue Systems of India.*

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to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar; it also originally existed in Madhya Pradesh.

Landlord-village

Principle of sharing

In the Landlord-village, the holdings of the cultivating landholders are not separate units; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body is of common descent, and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords). The Landlord-village system prevails in Uttar Pradesh and East Punjab.

The headman

his functions in Raiyatwari village

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). He holds a hereditary position, and is remunerated by the grant of a plot of land. In the Landlord-village the business of the village is entrusted to a punchayet or council of village heads, the leading man among them being selected as the representative of the body and as the headman. He is called the *lumbardar*, and is directly responsible for the revenue of the village.

The patwari

his duties

Another officer of the village is the *patwari* or accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payments. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the *tahsil* any unusual occurrence in the village. Besides these officers, there is the watchman or *chowkidar* in each village, and in some cases, one or two other petty officers.

Bengal villages

Although the *zemindari* system prevails in West Bengal, the villages of the State are different from the villages of Northern India in many respects. They are not walled in, and corporate life is less in evidence in them. There are no village officers of any position of importance. The holdings of the cultivators are mostly separate units, and rent is paid to the zemindar. The *malguzari* system prevails in Madhya Pradesh.

Village economy

Until recently, each village constituted an economic unit, of which the chief feature was its self-sufficiency.[1] It used to be, to a large extent, independent of relations with the outside world, so far as its internal economy was concerned, for within

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[1] Baden-Powell, *Land Revenue Systems of India*, and Sir T. Morrison, *Industrial Organisation in India*.

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its own boundaries the village possessed all the factors which were requisite for the supply of its few wants. Even now the great bulk of the people is agricultural.

Classes in the village

Besides the two classes of landlords and cultivators, there was a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supplied the needs of the small society, and had each a recognised place in the village. The petty shopkeeper performed the important function of exchanging the different products. The money-lender—who also usually combined other functions, especially those of a wholesale grain-merchant—was, by virtue of his position, a very important member.

The place of competition in village economy

Division of labour

Immobility of labour, Want of capital

The services of the artisans, etc., used formerly to be paid for in kind. Wages and profits, governed as they were largely by custom, were comparatively fixed and inelastic. Division of labour existed only to a limited extent. Labour was immobile; and what little capital there was in the village was locked up in the land.

Sense of unity

The different classes in the village were conscious of the fact that each was dependent on the others, and that the interests of each class were bound up with those of the rest. Thus there grew up a strong sense of unity and solidarity which helped to preserve the integrity of the village.

Life in the village

The villager lived a simple, and in years of good harvest, a contented life. There was very little wealth in the village, but the evils of capitalism were also absent. The cultivator or artisan knew little of the comforts and luxuries of urban life, and did not miss them. He believed that there were things higher than those of this world, and strove to attain them in the way which his religion and traditions pointed out to him.

changing

The village system, as it existed in olden times, is hardly to be found in its entirety in any part of India at the present day. The economic conditions of the country have undergone a more or less complete transformation, and the village has changed so as to keep pace with the march of events. The impact of Western civilisation has altered the ideas and ideals of the villager. Efforts are now being made to reconstruct the village, but no appreciable success has been attained so far.

5. STATUS AND CUSTOM

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, until recently, the supreme regulator of his actions and relations in life, but its influence is now becoming less every day.

Influence of custom :

on rents

Under the Hindu as well as the Muslim administration, and, to a large extent, during the early days of British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The Government then realised that the influence of unlimited competition would be to affect injuriously the interests of the masses of the people and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits; and the main object of their rent legislation was to secure to the tenants some of the rights conferred on them by custom. Custom thus is still, to a considerable extent, the foundation of rents in India.

on wages

Custom was the chief regulator of wages in India till the middle of the last century. Nowadays, however, they are governed more by competition than by custom, although they are not so responsive to changes in circumstances as in the West.

on prices

Prices also used at one time to be determined, to some extent, by custom. But in modern times they depend almost entirely upon the relations between demand and supply. It is only in those parts of the country which are not easily accessible that custom is now found to exercise any influence on prices.

CHAPTER IV

PRODUCTION

GENERAL OBSERVATIONS

Special conditions of

land

Of the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, is dependent on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty cultivators. Practically all land utilised for purposes of production is subject to the payment of rent.

labour

Labour is, except in industrial centres, plentiful. Real wages are still low; but as the workmen are ignorant and mostly unskilled, the out-turn is comparatively small, and, therefore, labour can hardly be said to be cheap. Movement of labour from place to place is very irregular, and that from occupation to occupation is infrequent. Competition, when it acts, often affects the labourer injuriously. The labourer is diligent and sober, but poor, unenterprising, and unambitious. He possesses a natural quickness of intelligence, but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and business manager, which he is unfit properly to fulfil. The dignity of labour is insufficiently appreciated by the so-called higher classes of society. Division of labour is practised only to a limited extent.

capital

Indigenous capital is inadequate in the country, and has not yet completely overcome its shyness. Where wealth exists, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully understand the necessity of taking risks, and has not yet acquired in a full degree the habit of forecasting the future.

organisation

Business organisation, which is an important factor in the success of modern industry, has not yet been developed to the required extent in India. Practical experience—the best school for learning business—has so far taught only a comparatively small number of persons how to manage big concerns and to discharge properly the multifarious and arduous duties of the modern businessman. Industrial training and the acquisition of commercial knowledge have been, until recent years, most lamentably neglected. The value of co-operation and combination is not yet fully appreciated. The number of entrepreneurs of real ability, character and enterprise is limited.

Result

These are the main drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid pace. The annual output is not at all comparable to that of any industrially advanced nation. The country generally is not in a prosperous condition. The condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end.

Better things hoped for in future

This is certainly a gloomy picture. But it need not fill the people with despair about the future. Strenuous and persistent efforts on their part are sure to lead to an immense improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which should be their earnest endeavour to control and modify.

Summary

The economic position, so far as production is concerned, may be summed up as follows: The productive capabilities of India are great; she possesses an abundance of natural resources and a plentiful supply of labour; but she lacks capital, enterprise, and organisation. The defects are, however, remediable, and, as a matter of fact, attempts have been and are being made to remedy them.

CHAPTER V

PRODUCTION (*Continued*)

AGRICULTURE AND MINING

1. AGRICULTURE

People mainly engaged in agriculture

AGRICULTURE is the most important industry of India. It gives employment to about 70 per cent. of the total population of the country, and nearly 90 per cent. of the rural population is connected with it, either directly or indirectly.

Productivity of land

In a large country like India, the productivity of land cannot but differ from place to place. We have, on the one side, the exceedingly fertile black cotton-soil of the Deccan and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhya hills and the sands of Western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, we may say that land is fertile in India.

Land classified

Land may be classified in a variety of ways. The classifications usually adopted are: cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli* (or land which yields one crop in the year and that which gives two).

Produce depends on rainfall

Harvests

The actual produce of any year depends on the amount and distribution of the rainfall. The periodicity of the seasons often allows of two, and in a few cases, *e.g.*, the irrigated parts of the Madras deltas, of three harvests in the year. Double-cropping is possible in many parts of India.

rabi* and *kharif

The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the South-West monsoon commences, and they are reaped between September and November.

The *rabi* less dependent on rainfall than *kharif*

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their growth being different, the characters of the two kinds of crops also differ. This difference in character is specially marked in Northern India; but is less marked in West Bengal, and still less in Madras. During the period of their growth the *rabi* crops are subject to a considerable degree of cold, which limits the choice of staples. In West Bengal and Madras, the same varieties of crops may be grown in summer and winter.

In Bombay State, which gets almost the whole of its rainfall from the South-West monsoon, *kharif* is the chief variety of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the North-East monsoon brings rain to the State. In Northern India, the South-West monsoon rain offers the condition necessary for the growth of various *kharif* crops, while the winter weather is well suited to the *rabi*.

Classification of crops

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs, (10) fruits, (11) fodder crops, (12) root-crops and (13) miscellaneous crops. This division, however, is not strictly logical, as some of the crops fall into more than one of the classes. A brief account of the chief crops is given below.

Chief crops
Rice

Of the total cultivated area, food-crops occupy nearly 81 per cent. and non-food-crops about 19 per cent. Rice is grown in areas of heavy rainfall, as, for instance, West Bengal, Assam and the coast districts of Bombay and Madras. Over one-third of the total cultivated area of India is under rice. The varieties of rice are innumerable. In Bengal there are two main harvests, —the *aus* or the early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse and eaten by the poorer classes alone ; but it serves as a provision against famine when there is a failure of the rains. In Uttar Pradesh, it is grown either in damp localities or with the help of irrigation. Rice is practically the sole food-crop in deltaic swamps. As a result of Partition the area under rice and its total yield have both decreased.

Wheat

Wheat is grown in larger or smaller quantities in every State. The great wheat-producing tracts, however, are Uttar Pradesh, East Punjab, Bihar, Madhya Pradesh and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice ; consequently, we find that, broadly speaking, where rice thrives wheat does not. Wheat is a *rabi* or winter crop, and water is supplied for growing it by irrigation in one or other of its forms. The area under wheat has greatly expanded with the extension of canal irrigation. There are two chief classes of wheat,—soft and hard. Indian wheat compares very favourably with the wheats of other countries in respect of quality. As a result of Partition India has lost a large wheat-growing tract.

Barley and Oates

Barley is grown to a small extent all over India, but chiefly in Uttar Pradesh. It serves as food for men as well as animals. Oats are a very minor crop in India.

Maize

Millets

Buck-wheat

Maize is grown in most parts of India, but in Uttar Pradesh it forms an important food-crop. Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being juar, bajra and ragijuar, which is the staple grain-crop of Southern India. Millets are cultivated also as a fodder-crop. Among cereals is classed buck-wheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in Madhya Pradesh and Bihar.

Pulses of various kinds

Next to cereals, pulses occupy the most important place among food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *arahar*, *chana*, *musuri*, *urd*, *mug* and *kalai*. Pulse-crops thrive best in Uttar Pradesh and Bihar. They also grow abundantly in West Bengal. Some of the varieties of pulses are used as fodder for cattle.

Oil-seeds

Coconut
Ground-nut

Oil-seeds form very important crops in every part of India. The total area under oil-seeds is large. There are several varieties, the more important among them being mustard (*rye*, *sorson* and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and ground-nut. Oil is also obtained from fruits, such as coconut and mahua, from various flowers and from cotton-seeds. Coconuts and ground-nuts have become important articles of export and their increased production is being encouraged by the Government. Castor-seed is important because the *eri* silk-worms are reared on its leaf. Linseed and linseed oil constitute important items of India's export trade. The enormous exports of oil-seeds involve a considerable loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food or as manure in the country. Even oil-cakes are exported in good quantities, while the Indian cultivators suffer from the lack of cheap fertilisers.

Jute

Among the fibre-crops, jute and cotton are the most important. Undivided Bengal held the virtual monopoly of jute in the world. But as a result of Partition, the principal jute-growing districts of Bengal now belong to Eastern Pakistan. The Government of India are taking various steps to increase the area and yield of jute cultivation. Jute is also grown in Bihar, Assam, Orissa and Madras in smaller quantities. The conditions which are suitable for rice are, generally speaking, also suitable for jute.

The first mention of jute as an article of export was made in 1828. Jute manufactures are now exported in large quantities.

In post-war years substitutes are being made with paper-bags, manilla hemp, sunn-hemp, aloe fibre, mesta-pat, rosella fibre, etc. The real danger to our jute export trade is likely to come from the wide adoption of the system of bulk handling, which seeks to do away with the use of any packing material. Serious efforts should be made to find out new uses of jute within the country.

Mesta-pat

Sunn-hemp

Rhea

Aloe-fibre

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as even superior to jute and *sunn*-hemp. Rhea is another important fibre-crop. Considerable hope is entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries.

Cotton

Cotton holds a very important place among the agricultural products of India. Cotton has also been the victim of Partition, as a result of which the area and yield of cotton crops have suffered a considerable decline. The principal cotton-growing tracts are the plains of Gujerat and Kathiawar, the Tinnevelly, Madura, Coimbatore and Ceded Districts of Madras, the highlands of the Deccan, the valley of Madhya Pradesh and Bihar. Cotton falls into two classes: cotton-crop and tree-cotton; but there are numerous varieties of the cotton-crop, and tree-cotton also is of several sorts. In the Deccan the most suitable soil for cotton is the black cotton soil. The quality of the product is inferior to that of the United States and the yield per acre is also less.

Although the cultivation of indigenous cottons is more remunerative to the farmer in non-irrigated tracts, the production of foreign varieties of long-staple cotton is increasing, and their prospects are decidedly favourable in some parts of the country, *e.g.*, East Punjab, Gujerat, Southern Madras and Madhya Pradesh.

Simul and *ak*

The *simul* (silk-cotton) trees and the common *ak* (which grows wild in sandy places) yield a silky fibre which can be converted into a valuable vegetable silk of fine quality.

Indigo

Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in small quantities in Bihar and Uttar Pradesh. The synthetic dyes are inferior in quality to indigo and other vegetable dyes, and a revival of this crop is not altogether impossible in future.

Poppy

Poppy cultivation is mainly restricted to Bihar and districts of Uttar Pradesh north of the Ganges. It is conducted on behalf of the Government. Poppy is also cultivated in some

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of the tracts of Rajputana and Central India. It is a *rabi* crop.

Tobacco The total quantity of tobacco grown in India is large. It grows in almost every district; but the chief places of production are the Tirhut districts of Bihar, and certain districts of Madras.

Tea The chief tea-growing tracts are Assam, the Darjeeling and Jalpaiguri districts of West Bengal, the Nilgiris in Madras, Dehra-Dun in Uttar Pradesh, and the Kangra Valley in East Punjab. Of the total production of tea in India a very large proportion—more than 70 per cent.—is exported, and there is room for further expansion in exports. The U. K. is the largest customer for Indian tea, taking more than 80 per cent. of our total exports.

Coffee The cultivation of coffee is confined wholly to Southern India.

Cinchona The two main centres of the cultivation of cinchona are Darjeeling and the Nilgiri Hills. It is a Government monopoly.

Table vegetables Of table vegetables, a large variety is found in India, the most common being potato. It is usually grown after *aus* paddy or jute; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, brinjals, cabbages, cauliflowers, tomatoes and turnips. Akin to potatoes is cassava, called *simul alu* or *sarkarkanda* of which there are several varieties, some are red, some white. This vegetable sometimes serves as the chief food during a famine. It resists drought and forms a nourishing and palatable food. A more extended cultivation of this and other drought-resisting crops is desirable as a protection against famine and scarcity.

Fruits Nowhere, perhaps, in the world can a larger variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If this is done, the quality of the fruits is sure to improve and the yield will greatly increase. New fruits suited to the conditions of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries.

Sugar Sugar-cane is indigenous to the country. It had at one time a pre-eminent position in respect of acreage and yield. From very early times the sugar industry was a flourishing one in India. But it greatly declined owing to the importation of foreign sugar. In recent years, however, a great revival has taken place.

Gur is regarded as a half-manufactured article. In India it is obtained either from the sugar-cane or the palm. The best cane is grown in Uttar Pradesh, West Bengal, and some districts of Bihar and Madras. Palm-sugar is manufactured from the juice of the ordinary palm or of the date-palm. The date-sugar industry of West Bengal, which is now languishing, is capable of being made profitable, as the yield is certain and very little expense has to be incurred for planting the trees.

Spices Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the local demand. A great extension of their cultivation is thus needed.

Lac Among the miscellaneous crops the most important are lac and rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam and some forest tracts of Madhya Pradesh, West Bengal, Bihar and Madras are the chief sources of its supply.

Rubber The importance of rubber as an economic product is being recognised more and more widely every day, owing to the numerous purposes for which it is utilised. In India, its principal source of supply is the Malabar coast. If the cultivation of rubber on a large scale could be made successful in India, it would help materially the industrial development of the country.

Sericulture Sericulture was once a profitable industry, but towards the middle of the last century it declined. The decay of sericulture in India is attributed to the following causes : (*a*) low price obtained for the product due to foreign competition, (*b*) high rent of mulberry land, and (*c*) disease and degeneration of the silk-worm. The Silk Committee of 1908 were of opinion that pebrine was the main cause of the decline in the production of mulberry silk in Bengal. Of the cocoons produced in Bengal the greater portion is exported in a raw state. Mysore is another silk-producing area. The Government of Mysore is fostering the growth of this industry along with other industries. In Kashmir, the industry is a monopoly of the State. There is an abundant supply of natural mulberry, and the location and climate are favourable. Seeds are mostly imported and cocoons exported. Assam is an important mulberry-silk-producing State.

Fodder-crops The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In East Punjab and Bihar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Grams, oats, barley, turnips and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of small plants are also found valuable as supplying food for cattle. A systematic and large cultivation of fodder-crops is very necessary for the improvement of cattle.

Agricultural statistics

Accurate and reliable statistics regarding the agricultural production of India are not available. The following figures will give the reader approximate ideas :

AREA AND PRODUCTION OF PRINCIPAL CROPS

	Area (000 acres)	Yield (000 tons)
Rice	60,480	18,863
Wheat	21,165	5,414
Other cereals	75,189	12,419
Gram	19,711	4,563
Ground-nut	9,078	3,073
Sugar-cane	3,645	4,984
Tea	787	561
Coffee	198	34
Non-Food		
Cotton	11,055	1,864
Jute	766	1,982
Oil-seeds (other than ground-nuts)	13,303	1,569
Tobacco	784	242
Rubber	167	35

Arboriculture is a science akin to agriculture. The forests in India are mostly under State control. They are classified, for departmental purposes, into (*i*) reserved, (*ii*) protected and (*iii*) unclassed or public forest land.

Afforestation

India is capable of growing various kinds of trees. They grow naturally in places where there is abundant rainfall ; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country was covered with trees. In the first half of the nineteenth century, however, the matter was neglected, and many parts of India were denuded of forests. The serious effects of disforestation were realised in the latter half of the nineteenth century. A policy of systematic conservation of forests has now been adopted. The propagation of trees which yield starch, oil, sugar, vegetables and fibres is of vast importance to a country where a failure of agricultural crops through drought or inundation is of frequent occurrence. The Forest Research Institute at Dehra-Dun is engaged in

Beneficial influence of forests

exploring the possibilities of development of India's forest products. Lac, tanning materials, essential oils, turpentine, rubber and resin have established themselves firmly in the markets of the world. But apart from their invaluable uses for food, fodder and timber, trees are highly useful for their influence on the climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature, and by keeping the atmosphere moist they induce the fall of rain. Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency as the leaves fall and get mixed up with the soil. Lastly, they serve as break-winds in localities where high winds are an impediment. It is essential, therefore, that by improvements in the method of culture, by concentrating methods of working and management, by the development of new uses and markets, and by greater attention to minor forest products, the forests of India should be made a very important source of her national income.[1]

The importance of forests is now being recognised everywhere. A *Vana-mahotsava* was celebrated throughout India in July, 1950, when a large number of trees were planted. A second *Vana-mahotsava* is being celebrated in July, 1951.

Pisciculture

Pisciculture has been neglected in the past. Fish is valuable as human food and also as manure for agricultural purposes. Fisheries afford employment to considerable numbers of men; but the industry at present is carried on in a very inefficient manner. If proper methods be adopted, India, with her innumerable rivers, streams and tanks, as well as her extensive seaboard, ought to have a plentiful supply of fish.[2]

Method of agriculture

small-scale

extensive

In India, as we have seen, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. The average size of the holding in some States is so small that the cultivation of it is hardly ever too much for the owner himself to undertake. The same conditions are found in other tracts. Cultivation is mostly extensive, and only in exceptional instances, intensive. It is practised in the different parts with an infinite variety of detail, according to the varying conditions. The deltaic swamps of West Bengal cultivation, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of East Punjab, and the desert of Rajputana require separate modes of cultivation.

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[1] N. G. Mukherji, *Handbook of Indian Agriculture*.

[2] Recently, the Government of West Bengal have purchased two Danish fishing trawlers which are being used for deep-sea fishing.

Cultivation unscientific

but not inefficient

Assiduous agriculturist possesses inherited experience, but is poor

The Indian peasant is ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land[1] or selecting good seeds, or leaving his land fallow for a season. The implements used are of the simplest kind, but they are well adapted to the needs of the peasant.

Chief want—capital

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is capital. With greater capital he would be able to spend more on manures, he would purchase better cattle and feed them more properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education is necessary.

Improvement of agriculture

Suggestions must be practical

As agriculture is the chief industry of the country, and as the success of other industries depends on raw materials obtained from the land, the improvement of agriculture ought to engage the serious attention of the Government as well as of every patriot in India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these, however, have come from persons who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring, and proper rotation of crops, and thus involves the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator.

There is, however, much room for improvement even under the present conditions. It is believed that improvement effected

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[1] Social prejudices also sometimes stand in the way of the utilisation of certain kinds of cheap manure, which are thrown away to the great detriment of the soil.

Much room for improvement under present conditions

in the existing methods of cultivation will increase the yield of crops by 15 to 20 per cent. Co-operation among farmers may go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for their common use, or they may join in constructing wells for supplying water to their fields, or they may leave common pasture-land for the grazing of cattle.

Scientific experiments, fairs

Scientific experiments, carried out with a full regard to the circumstances of the country, will prove useful in many ways. Agricultural fairs and shows may be of much use to cultivators. Actual demonstrations may also be given for proving the advantages of improved implements, good seeds and suitable manure.

The peasant not hopelessly conservative

Some agricultural experts despair of the improvement of agriculture because they regard the Indian peasant " a living emblem of inertia." But, in reality, the peasant is not so conservative as he is often supposed to be. He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives and works.

In 1926-27, a Royal Commission on Indian Agriculture enquired into the whole question and made some important recommendations. The acceptance of two of these recommendations has considerably influenced the development and expansion of agricultural cultivation in this country :—first, the co-ordination of agricultural research under a central organisation, namely, the Imperial Council of Agricultural Research ; secondly, a better organisation of the marketing of agricultural produce. In 1936, the Russel-Wright Committee also made valuable suggestions.

Irrigation and dry-farming

The extension of the different modes of irrigation and the adoption of such dry-farming methods as may be found suitable by experiment should increase the area under cultivation, and thus add to the agricultural wealth of the country.

Agricultural education

Agricultural education is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in the science and practice of agriculture in a few well-equipped agricultural colleges and in a fairly large number of schools. The Imperial Council of Agricultural Research at New Delhi is the co-ordinating centre of agricultural research in India.

Research

Importance of agricultural improvement

For agriculture India possesses great natural advantages, and when they are fully utilised they will surely add much to the wealth of the country. Agriculture is important not only in itself, but on it are based the possibilities of development of many important manufacturing industries.

2. MINING

Mining

Akin to agriculture is the mining industry, for both are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of every kind ; and there is hardly anything which she cannot produce if only capital, enterprise and technical knowledge are forthcoming.

Revival of mining

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India. Nevertheless, during recent years conditions have been rapidly ripening for the successful revival along modern lines of industries dependent on minerals.

India produces most of the basic minerals required for her industrial development. She also exports considerable quantities to foreign lands. The total value of minerals produced in India amounts to about 60 crores of rupees.

Coal is the most important of India's minerals, the total annual output being a little over 30 million tons and the value being Rs. 43$\frac{3}{4}$ crores. Indian coal has now almost completely displaced imported fuel. The coal workings in India are still very shallow. Coal is very unevenly distributed over India, as by far the largest portion of the total output is now contributed by the mines in Bihar and Bengal. The Jharia coal field is situated in the districts of Manbhum and Hazaribagh in the State of Bihar. The Bokaro field which is likely before long to prove one of the great Indian coal areas is situated in Bihar State. The other coal-fields are to be found in Madhya Pradesh, East Punjab and Rajputana, but they are small both in size and output.

Coal output is a dominating factor in Indian industry, and its importance is likely to be more and more keenly realised as the country advances as a manufacturing producer.[1] Unfortunately, there are various drawbacks in the working of the

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[1] "The possession of native coal," says L. G. C. Money, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented—which can be expressed at will either as light or as heat or as electricity."

Indian coal industry, the most important of these being the low output per head. This is attributed to the inefficiency of the Indian labourer who is primarily an agriculturist and casually a coal miner. He is an unskilled worker.

Petroleum

The Indian supply of petroleum and kerosene comes from Assam. The production of petroleum amounts to a little over 61 crore gallons, the value being about Rs. 1 crore. India's output is very small, and it falls far short of her heavy domestic demand. So India has to import large quantities of kerosene and petroleum from abroad.

India is one of the biggest producers of high-grade manganese ore. Manganese is mainly required for manufacturing steel and the bulk of it is exported to the steel-producing countries.

Gold

India's production of precious metals is considerable, though not large. Gold is produced of the annual value of about 4·90 crores of rupees. The Kolar fields of Mysore produce almost the whole of the output.

Mica

India has for many years past been the leading producer of mica in the world, turning out more than 60 per cent. of the world's supply. Practically all the Indian mica is exported to foreign countries. By far the greater portion of the output is obtained from the Bihar mica belt.

Iron

Iron ore has at present become an important mineral product of India. More than 21 million tons of iron were produced in India in 1948. Almost the whole of it was consumed internally. The production of iron ore has largely increased since the establishment of the Tata Iron and Steel Company in 1911. The larger part of the supply comes from Singbhum and from Mayurbhanj and Keonjhar in Orissa. There are also valuable deposits in Madhya Pradesh, Madras and Mysore. According to Cyril Fox, the iron ore recoveries in India are as large in quantity and as superior in quality as those of U. S. A.

Pig-iron, steel, ferro-manganese

Of the manufactured products of iron-ore, pig-iron, steel, and ferro-manganese are produced in considerable quantities.

Copper

Monazite :

Bauxite :

Except for gold and a little silver recovered in the refining of gold, copper is the only other non-ferrous metal smelted from its ore in India. India is one of the biggest producers of ilmenore. Almost the entire quantity is exported. The production of monazite is very important. A monazite factory for the manufacture of uranium and thorium used in the production of atomic energey will start functioning at Alwaye from the beginning of 1952. This project will be a joint venture of the Central and Travancore-Cochin Governments. According to Cyril Fox, the Indian occurrences of aluminium ore or bauxite are as large and of as high a grade as any in the world. The reserves of Indian bauxite are estimated at probably 250 million tons, largely in Bihar (Ranchi), Madhya Pradesh and Bombay with a little in Vindhya Pradesh.[1]

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[1] The figures are for the year 1947.

MINERAL PRODUCTION IN INDIA, 1948

		(in thousands)
Coal	Tons	29,822
Gold	Ounces	180
Petroleum	Gallons	65,608
Iron ore	Tons	2,285
Manganese ore	Tons	467
Mica	Cwts.	152
Copper ore and matte	Tons	322
Salt	Tons	2,265
Ilmenite	Tons	229
Building Materials	Value	Rs. 29,681

India in World Economy (Government of India Publication).

CHAPTER VI

PRODUCTION (*Continued*)

MANUFACTURES

Manufactures of ancient and mediaeval India

At the present moment India is not as advanced in manufacturing industries as the leading countries of the world. But there was a time when she was one of the chief industrial countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity, skill and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity but they turned out works of art of great excellence.

Their excellence

The metal industries, and the silk and cotton fabrics, in particular, attained to considerable magnitude in many parts of the country. An eminent writer wrote long ago : " In manufacture the Hindus attained to a marvellous perfection at a very early period, and the courts of Imperial Rome glittered with gold and silver brocades of Delhi. The *muslins* of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India."[1] In the words of Sir William Hunter,

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[1] So also M. Martin in his *Indian Empire* says : " The gossamer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Cæsars, when the barbarians of Britain were painted savages. Embossed filigree metals, elaborate carvings in ivory, ebony and sandal-wood ; brilliant dyed chintzes, diamonds, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

"the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns.

Causes of their decay

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By the adoption of methods which saved labour and materials, and by the utilisation of by-products, goods were turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital were invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change. The Indian artisans continued to work as their forefathers had worked—without capital, without machinery and without organisation. Each man went on working by and for himself as before; the appliances he used were the same as had been in common use before the manufacturing era began; there was no co-operation among the artisans; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. To these defects were added the efforts of the East India Company and of the Government of Britain to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by State action. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.[1]

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[1] Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics not by fiscal duties but by absolute prohibition. A change of fashion in the West Indies on the abolition of slavery took away the best customer left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American War, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts......And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstance has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

The eminent historian, H. H. Wilson, points out the "melancholy instance of the wrong done to India by the country on which she had become dependent." (*History of India*, Vol. I, pp. 538-539, note).

Tendency: towards improvement

All industrial activity and enterprise remained paralysed for a long time. In recent years, however, there has become discernible a tendency towards a better state of things. But the situation is still full of difficulties. The average educated Indian has not yet acquired in a full measure the practical commonsense of the businessman, and his education has not fully fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital is wholly inadequate for the starting of business on a proper scale, and there are few banks, if any, which would be ready to lend him money. It is difficult for him to command the services of men who possess the requisite knowledge and technical skill.

Difficulties still great

but are being overcome in part

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last half-century. People are now beginning to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a new energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial instruction so as to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam and electricity are superseding hand-power and, in recent years, a substantial advance has been made in the utilisation of hydro-electric energy. Serious attempts are being made to revive the old industries and new industries are cropping up in every direction.

The chief industries:

A brief review of the more important industries will give an idea of the present industrial position of the country.

Weaving

Weaving is the most important industry of the country next to agriculture. Hand-loom weaving at one time reached a perfection in the production of fine cloths. Indian *muslins* were then regarded as fabrics of unrivalled delicacy and beauty. The preliminary processes of ginning, cleaning, pressing and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded almost entirely by power-gins. Cleaning and pressing are very often combined with ginning in the same factories. Spinning of thread was for a long time a domestic industry—the chief occupation of women. But hand-loom weaving suffered greatly in competition with Manchester, and hundreds of thousands of workers were thrown out of work. The weavers of Bengal, whose fame at one time extended over Europe, suffered most from foreign competition. During the *swadeshi* movement the hand-loom industry received a great impetus. The Industrial Commission pointed out that

**Ginning
Cleaning
Pressing
and
Spinning**

Effect of foreign competition

the hand-loom industry showed a tendency to consume an increased quantity of yarn year after year. Later, it received further encouragement from the propaganda inaugurated by Mahatma Gandhi to stimulate the production of coarse home-spun and hand-woven cloth (*khaddar*). According to the figures made available by the Fact-finding Committee on Hand-looms appointed by the Government of India in 1941, there were about 2 million looms in India giving employment to 2.4 million people. The Committee estimated the total value of hand-woven cloth at Rs. 42 crores.

Advantages of hand-loom

Hand-loom weaving is more expensive than power-loom weaving. Experts, however, think that there are several factors in favour of the hand-loom, which may be summed up as follows: The amount of fixed capital needed is small; the coarser hand-loom articles are stronger and more durable than those produced by the power-loom; artistic and richly-ornamented articles can be produced only by the hand-loom; the hand-weaver possesses considerable advantage in his inherited skill; he has a low standard of living and combines the industry with other occupations, notably agriculture; women, who, on account of social customs, are generally debarred from working in the factories, can find a place in the industry; the hand-worker who works on his own account works harder and takes greater interest in his work than the factory labourer; the adaptability of the hand-loom industry is much greater than that of the power-loom in times of industrial fluctuations.

The fact that hand-loom weaving has not yet died out has led many people to hope that the industry may yet be saved. E. B. Havell and Sir Alfred Chatterton thought that, by the adoption of improved methods, the hand-loom might successfully compete with the power-loom. This belief, however, is not shared by other experts, who find in the establishment of weaving mills the only means of meeting foreign competition.

Suggestions for improvement

Among the measures suggested for improving the hand-loom industry the following are worthy of attention: (*a*) the spread of elementary education; (*b*) the use of efficient hand-looms; (*c*) improvements in preliminary processes; (*d*) co-operation among weavers and better organisation; (*e*) demonstration to the weavers of successful experiments; (*f*) cheap credit; (*g*) advances for improved appliances; (*h*) better touch of the weavers with the customers so that they may know the demand of the market; and (*i*) the establishment of small hand-loom factories and weaving schools.

Weaving mills

During the last half-century there has been a great development of weaving mills in most of the States. The produce of these mills is now able to hold its own against foreign produce in quality. But the quantity locally produced still falls short of what is needed to clothe the entire population.

India produces largely coarser yarns and goods, and also finer products in considerable quantities.

Effects of the War

The First World War interfered with the supply of imported cotton goods, and brought in its train very high prices. It thus gave a great stimulus to the development of the cotton mill industry in India. The abolition of the unpopular excise duty in 1926 which had been imposed since 1896 to the great detriment of Indian cloth industry, aided by tariff excise protection and the *swadeshi* sentiment, led to a further growth of the weaving industry. A more important step was taken in April, 1930, when the Cotton Textile Industry Protection Act was passed raising the import duty on all varieties of cotton piecegoods. The period of operation of the protective duty on cotton piecegoods was extended to 1939, later on to March, 1942 and was further extended to March, 1947.[1] At present there are 422 cotton mills in India with 1,04,33,000 spindles and 2,02,000 looms. During the post-war period there was some decline in output, and after a revival for a short period, production went down again in 1950.

Grant of protection

Silk-weaving

The process of weaving silk is the same as that of cotton, but it requires greater care and the use of a specialised kind of machinery. The greater part of silk production is done by hand-looms. During the early years of the administration of the East India Company, the silk industry in India was in a thriving condition. But it has now greatly declined. The importation of foreign silk, especially from Japan and China, has greatly affected the silk-weaving industry, while the development of artificial silk rayon in foreign countries as well as in India in recent years is threatening its very existence. Indian silk-weavers at present use large quantities of foreign silk yarn. The industry is mostly carried on as a domestic concern, as there are only a few mills in the whole of India. The main advantage of the domestic system is that it offers employment to women. Expert authorities are inclined to think that there is a considerable scope for the development of silk-weaving as a home industry, provided it is organised on sound lines. Co-operation offers a good solution.

Maxwell-Lefroy makes the following suggestions for the improvement of the silk industry :—(1) improvement in design,

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[1] On the recommendation of the Indian Tariff Board, protection was discontinued from April, 1947.

(2) development of commercial organisation, (3) cheapening of raw materials and methods of production, wherever possible, (4) production of suitable fabrics and popularising them by demonstration, (5) help to local schools with expert advice, and (6) assistance to local efforts and financial facilities. These suggestions deserve earnest attention. The obstacles offered by the imports of foreign silk and rayon are partly being met by protective duties. Several States are taking energetic interest in developing the production of silk. In post-war years the rayon industry has considerably developed in India.

Knitting

Allied to weaving is knitting. The industry has received a great impetus from the new spirit in the country. It can give employment to a large number of women who may work with small machines in their own homes for piece-wages. Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *daris* form the subject of an important industry in Uttar Pradesh. In recent years there has been a considerable increase in the number of hosiery factories operating in India. Artistic work on dress was at one time very much in demand, but is now in a declining state.

Woollen industry

The indigenous woollen industry of Northern India has suffered much in competition with cheap foreign goods. Attempts have been made during the last quarter of a century to develop the industry on modern lines. In East Punjab, Uttar Pradesh and Bombay, a number of woollen mills has been started. Scarcity of raw material of a good quality is an obstacle to the growth of the industry. Woollen carpets of superior quality are made in Uttar Pradesh, East Punjab and a few other States.

Jute

Jute supplies the raw material for the manufacture of gunny bags and other goods of a similar character. The record of this industry in Bengal since its establishment in the middle of the nineteenth century until recent years was one of uninterrupted progress. Every decade showed an increase in the paid-up capital invested in the industry. The First World War gave a great stimulus to this industry, as jute gunnies were largely required as munitions of war, and the industry paid fabulous dividends. Among the organised industries of the country, the jute industry ranks second as regards employment of labour, but the greater part of this labour is imported from the neighbouring States. This industry was at one time entirely in the hands of Europeans, but during the last few years a few mills have been started by Indians. After a period of acute depression, the jute industry enjoyed a boom during the Second World War.

The Partition of India has adversely affected the jute industry and the Indian jute-mills have been put to great difficulty on account of the scarcity of raw jute, as Eastern Pakistan produces 70 per cent. of raw jute, including most of the superior quality jute. India has thus to depend greatly on the supplies of raw jute from Pakistan. Due to periodic suspensions of Indo-Pakistan trade relations and exchange difficulties following the devaluation of Indian currency, the supply of raw jute from Pakistan has been irregular and unsatisfactory, and as a result Indian jute manufactures have declined.

Paper

The manufacture of paper was at one time an extensive hand industry, but now the hand industry has practically died out. The paper produced in India at present is almost wholly machine-made. The production of machine-made paper in India dates from the establishment in 1870 of the Bally Mills on the Bhagirathi. The staple material for the manufacture of paper in India has in the past been *sabai* grass, which grows abundantly in many parts of Northern India. At present paper is being made also from Indian wood and from bamboo. Paper mills are now working at several places. India at present has 16 paper mills, and 11 board mills. She has to import considerable quantities of paper from abroad.

Dyeing

Dyeing was at one time a very thriving industry, but the Indian dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes. The indigenous dye industry has probably felt—more than any other—the effects of modern technical progress, and many dyers have had perforce to seek other means of livelihood. Dyes are manufactured from various stuffs, such as indigo, catechu, *al*, safflower, lac, and turmeric, but nowhere on a considerable scale. The indigo industry has greatly declined since the production of synthetic indigo by Germany.

Rice-hulling, Wheat-milling, etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries and biscuit manufactures. Flour and rice mills have been started in some places, but in many parts of the country milling is still done by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In West Bengal and East Punjab, several biscuit factories have been started.

Sugar

Sugar used to be one of the important industries of India in ancient and mediaeval times, but Germany's bounty-fed beet sugar gave the first serious shock to the sugar industry of India. Refined Indian sugar found it difficult to compete successfully with foreign sugar, particularly that imported from Java. The Indian Sugar Committee of 1920 very exhaustively dealt with the question of the production of sugar in India. They pointed out various defects of the Indian sugar industry and urged the need of removing all the difficulties based on agricultural and industrial factors.

During the last three decades sugar production on a factory scale has been undertaken in most of the States of India, particularly in Bihar and Uttar Pradesh. The problem of sugar production on a large scale in India raised important issues on concentration of cane production, transport, irrigation, and improved mechanical processes. With the grant of tariff protection since 1931 and improvements introduced in the methods of production, the industry showed a phenomenal expansion till the end of World War II.

In the post-war years the sugar industry has been passing through a crisis and the production has decreased considerably. Sugar is now partially rationed and the manufacturers are being allowed to sell certain percentages of their production in the market. In 1950 India had to import sugar from abroad to meet the growing demands of the people for the article. During 1948 and 1949 there was severe condemnation of the sugar industry from all sections of the public on the ground that the manufacturers were responsible for deliberately pegging the production of sugar at a very low level with a view to earning more profits. Because of this recalcitrant attitude of the industry the Government was compelled to withdraw tariff protection from the industry. But this has not materially changed the situation, as the import of foreign sugar is not being encouraged by the Government. India's slight deficiency in production and supply can be overcome by better management and less greed.[1]

Leather

India produces enormous quantities of hides and skins, but for a long time exported large portions of them in a raw or half-manufactured state to foreign countries. The indigenous leather industry was, until about four decades ago, in an extremely primitive condition and only very inferior kinds of leather were produced. But the industry received a stimulus from the introduction of chrome tanning. The First World War gave a further impetus to its development.

[1] The estimated requirements of sugar in India has been placed at 11 lakh tons, whereas the production in 1950 was 9¾ lakh tons as compared with 10 lakh tons in 1949.

Effects of the War

The leather industry continued to make progress and tanneries were established all over the country, the most important centres of manufacture being Agra, Cawnpore, Calcutta, Bombay, and Madras.

The industry made rapid progress during World War II owing to a spectacular rise in the demand for shoes for the armed forces. With the growth of production within the country, the import of shoes began to decline. In 1946 India exported shoes to other countries. Undivided India had one-third of the total cattle population of the world and she was a major exporter of raw hides and skins. Partition has adversely affected the progress of the industry as India has lost a large source of raw materials. India has, however, still great resources in cattle and it is expected that before long she would be able to wipe off the deficits caused by Partition.

Three research institutes have been started—the Leather Trades Institute at Madras, Government Leather Working School at Kanpur and the Calcutta Research Tannery—with the object of helping the development of the local tanning industry by technical research.

Oils and oil-seeds

Oils and oil-seeds form the bases of useful industries throughout the country. There is still ample room for their further expansion. The export of cotton-seeds involves an immense loss to the country. The development of industries in connection with oil-seeds is sure to be useful, both in a direct and in an indirect way.

Oil-seeds and oils constitute an important exchange earner for India. These oils produce many useful articles, including soap. In recent years there has been a great increase in the number of mills worked by steam and other mechanical power, especially in the case of mustard oil, castor oil and groundnut oil. An extension of the oil industry would enable the oil-cake to be retained in the country.

A particular type of industry which has developed in recent times is the *Vanaspati* oil industry. From a small beginning in 1930, it has now attained an important place in the industrial structure of the country. The prohibitive price of ghee and the easy supply of cheap raw materials are the two most notable contributory causes of the rapid growth of this industry during the Second World War.

Metal industries.

Metal handicrafts attained to considerable magnitude in early times. "The high quality of native-made iron," says Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world."

But the wasteful indigenous process of smelting iron in small furnaces with wood fuel was a great drawback to the growth of the iron industry. The early attempts to manufacture pig-iron and steel in India by European processes were marked by conspicuous failures during the nineteenth century. The first scheme which proved to be a financial success was the Bengal Iron Company. But the foundation of the steel industry was made possible by the discovery of abundant iron ore in Mayurbhanj area by the great scientist P. N. Bose, and the activities of the Tata Iron and Steel Company. Operations commenced in 1912. Although considerable progress has already been made, there is still sufficient scope for the development of this industry.

The history of the iron and steel industry since 1939 has been a record of continuous progress and development. This period reflects certain significant developments. In the first place, the production of the industry increased considerably. The industry experienced a long spell of expansion during the Second World War on account of large Government and Railway as well as overseas orders that were placed with it. The total production increased continuously till 1943, after which production declined till 1947. In 1949, the position slightly improved. The main iron and steel concerns are : the Tata Iron and Steel Co., Ltd., the Steel Corporation of Bengal, the Indian Iron and Steel Company, the Mysore Iron and Steel Works, and the Bengal Iron Company. The Tatas are now producing special alloy steel called *Tiscor* and *Tiscrum*, the latter being an alloy of high tensile strength containing chromium, manganese and copper. The Tata Locomotive Engineering Co., Ltd., a subsidiary of the Tatas, has successfully initiated the manufacture of boilers for locomotives and road rollers.

The Steel Corporation of Bengal, the second biggest steel-producing unit in the country, began operations during the Second World War and rendered unique service to India and the Allies.

Copper,
brass,
aluminium,
etc.

Engineering
industry

The Government have undertaken to make India self-sufficient in steel within a reasonable period. For this purpose, they propose to establish two new steel plants which are expected to produce one million tons per year. The existing firms also are going to carry into operation their development plans in the immediate future with the assistance of the Government.

It is worthy of note that the development of other industries dependent upon iron and steel has also proceeded on satisfactory lines. Among these subsidiary industries, we may mention the manufacture of tin-plate, enamel-ware, wire and wire-nails, iron and steel castings, fabricated steel, tools and implements, railway wagons, etc.

The Chittaranjan Locomotive Works, which is designed to undertake the manufacture of broad-gauge locomotives for Indian railways, is expected to start work in 1952. This will be one of the biggest steel concerns in the country.

Subsidiary industries

Copper and brass vessels which are necessary articles in every household are manufactured in most of the districts. The chief centres of manufacture, however, are Murshidabad, Srinagar, Benares, Mirzapur, Moradabad and Mysore. The artistic and jewellery works of Cuttack, Madura, Poona and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more may be found in every town and village. Cutleries have been in existence for some years in different parts of the country. The lock-works of Calcutta, Aligarh and Hathras have proved successful enterprises. The manufacture of steel trunks is becoming a useful industry. The aluminium industry has now become very important. This industry has achieved considerable progress in Madras and West Bengal.

In India, engineering industries were for a long time neglected. The enormous imports of machinery were due to the absence of engineering industries based on the large-scale manufacture of iron and steel. At present, however, there is growing up a considerable number of engineering workshops and railway workshops to meet the rapid expansion of modern industrial ends. But engineering shops in India are devoted mainly to rapair work or to the manufacture, chiefly from imported materials, of comparatively simple articles. If a forward policy of industrial development is to materialise in the future, the establishment of engineering industries on a large scale is urgently called for.

Glass

The manufacture of glass by the indigenous method has existed from very early times. Bangles are still made of crude glass obtained from *reh* or saline deposits on barren land. Flasks, inkpots, and other small things are blown from crude glass. Factories have for a considerable time past been in existence at Ferozabad and several other places for manufacturing bangles. But these factories are mostly worked on antiquated methods.

Glass factories working on scientific methods were started about the second decade of the 20th century. Rapid progress was achieved by the glass industry during the decade preceding

World War II, due, to a large extent, to protection granted by the Government. In 1944-45, there were about 250 factories and the production reached its peak figure in that year. At present India not only meets her own internal demand, but exports glassware to Pakistan and some other Asiatic countries.

Machine Tools

Machine tools industry owes its origin to the impetus given by World War II. In 1949, there were about 12 graded and 50 ungraded firms in India. The present production does not meet more than 3 per cent. of the total requirements of the country. The Government have recently entered into an agreement with a Swiss firm for technical assistance in the matter of machine-tool manufacturing. This factory is to be located in Mysore.

Automobile industry

The automobile industry in India is in an infant stage. Before World War II there were only two factories in India, *viz.*, General Motors, Ltd. and Ford Motors, Ltd., which were engaged in the assembly of motor cars and trucks. At present, in addition to these two factories there are eight factories which are assembling motor vehicles. Amongst the firms Hindusthan Motors, Ltd. of Calcutta and the Premier Automobiles, Ltd. of Bombay are aiming at the production of complete cars in India. It is expected that other parties will also fall in line with them.

Cycle industry

The necessity of having a cycle industry in India has been keenly felt for a long time past. In 1938 and 1939, several public limited companies were formed with the object of manufacturing cycles. In 1948-49, India produced 64,740 cycles and imported 264,042 cycles. The industry was given tariff protection in 1946, and the protective duty was increased in 1949.

Chemical industries

The once flourishing chemical industries of India were almost stamped out by the foreign manufacturers. The imported chemical products obtained a supremacy in India. Simple drugs and extracts are manufactured by some factories on a small scale, but for the greater portion of her requirements India is dependent on foreign countries. As a matter of fact, the industrial development of the country has been greatly handicapped by the lack of chemical industries. The manufacture of heavy chemicals is a key industry, and their development is urgently called for. Several factories—the most notable among them being the Bengal Chemical Works of Calcutta and the Tata Chemicals—have for sometime past been doing very good work in the way of reviving the chemical industries of India. The heavy chemical industry received protection from the Government in 1931 and 1937.

Heavy chemicals

During the Second World War, India made a rapid progress in the manufacture of basic chemicals, particularly heavy chemicals. The Imperial Chemicals (India), Ltd. is now the biggest concern in India for the manufacture of heavy chemicals and drugs. In 1950, India produced considerable quantities of sulphuric acid, ammonium sulphate, soda ash and chlorine liquid. Soda ash is the basic raw material for the glass industry. The production of caustic soda, which is largely used by soap, oil, textile, paper and other industries is substantial. The total production of bleaching powder is considerable.

Perfumes, etc.

Perfumes and essential oils are important industries in Uttar Pradesh. Ghazipur, Jaunpur and Kanauj are famous for the production of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on Western models have now been established in some of the cities of India. Soap is manufactured by the indigenous process, as well as in factories working on modern lines. Soap works were established all over the country before World War II. The War created a situation where the industry could grow rapidly. At present the industry is exporting soaps to the Far and Middle East. With sufficient help from the Government and an improvement in the supply of raw materials, the industry promises to open up an important line of production.

The tobacco industry is very extensive. But it is suffering acutely from competition with foreign products, especially American. The technique of cigar and cigarette making has not yet fully developed in India on modern lines. The tobacco industry is vigorous in some parts of the Madras Presidency. The industry made rapid progress during the Second World War. The Indian enterprises in cigarette making generally turn out articles of inferior quality. Recently, some British cigarette manufacturing companies have started branch factories in India. The main problems are those of increasing the yield of the tobacco leaf per acre and improving its quality.

Cement

Cement industry is now well developed in India and it received a great impetus during the Second World War. The manufacture is carried on mainly in Kathiawar (at Porbandar), Rajputana (at Bundi), Madhya Pradesh (at Katni) and in Bihar on the banks of the river Sone.

Carpentry

Wood-work and carpentry are still, in the main, hand industries. Saw mills have, however, been established in many parts of the country.

Dairy farming

Dairy-farming is more akin to agriculture than to manufacture, and can be profitably practised in association with the former. It ought to be a flourishing industry in India, but unfortunately is now in a languid state. The reason is to be found in the uneconomical method of work, the neglect of the hygiene and breed of cattle, and the want of pasture lands. It is an unfortunate fact that the supply of milk and its products, such as butter, *ghee*, *matha*, etc., has not kept pace with the demand. The best efforts of the people should be directed towards an industry which could supply them with the most nutritious kinds of food. For this purpose, the improvement of cattle and an increase of grazing fields are absolutely essential. The extension of dairy-farming on co-operative lines should be seriously considered. The problem of milk supply in cities has assumed an acute form, and it is high time that the municipalities of India moved in this direction.

STATISTICS OF INDUSTRIAL PRODUCTION

Statistics of industrial production

The following statistics of industrial production in 1949 will provide the reader with an idea of the industrial development in India :—

Cotton textiles—		
(*a*) Yarn	136	crore lbs.
(*b*) Cloth	390.40	crore yards
Steel (ingots and castings)	13.53	lakh tons
Coal	314.57	lakh tons
Jute	9.46	lakh tons
Salt	55.6	thousand tons
Cement	21.02	lakh tons
Sugar	10.45	lakh tons
Paper and Paper Boards	1.03	lakh tons
Cigarettes	2,189.09	crores
Matches	5.25	lakh cases
Plywood	476.2	lakh sq. feet
Kerosene oil	115.92	lakh gallons
Petroleum	662.97	lakh gallons
Enamelware	65.90	lakh pieces
Woollen manufactures	210	lakh pounds
Storage batteries	106.00	thousands (Nos.)
Sheet Glass	34.51	lakh sq. feet
Sulphuric Acid	99.45	thousand tons
Alcohol—		
(*a*) Industrial	29.88	lakh gallons
(*b*) Power	42.29	lakh gallons

Gold	1.61	lakh ozs.
Bicycles	87.92	thousands (Nos.)
Hurricane lanterns	17.28	lakhs (Nos.)
Sewing machines	25.03	thousands (Nos.)
Machine tools	47.29	value in lakh rupees
Electric fans	1.79	lakhs (Nos.)
Electric lamps	136.40	lakhs (Nos.)
Chrome tanned hides	5801	thousands (Nos.)

Immediate requirements

It is clear that some advance has been made in the industrial development of the country, but a great deal still remains to be achieved. Further progress will depend on the investment of capital, the energy and enterprise of the industrialists, the skill and devotion of the labourers, and the application of science to industry. The facilities which at present exist for technical education are extremely inadequate and a large extension of these is urgently needed. The Government of India have recently decided to establish four higher technical institutes in four different regions of the country, which will provide post-graduate studies and research in engineering and technical subjects. The Government of India's plan of establishing eleven National Laboratories has now partially materialised, and the Physical (at Delhi), the Chemical (at Poona), the Metallurgical (at Jamshedpur), the Fuel Research (at Dhanbad) and the Glass and Ceramic Research (at Calcutta) Laboratories have already started work.

Higher technical education and research

CHAPTER VII

DISTRIBUTION

1. RENT

Factors which determine rent : custom, competition, legislation

RENT in India depends on the interaction of three forces—custom, competition, and legislation. In ancient times custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different States, but their general effect is to put a check on the power of the landlord to raise rents at his pleasure. Rent legislation itself starts from the basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still to a large extent, the foundation of Indian rents. [1]

The relative influences of the factors

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it overcomes the influence of the other factors. Where it is weak, competition has its way, unless it is checked by law. Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally, the rise takes place, not immediately, but after the lapse of a considerable period of time. Sometimes, however, as in cases where rents are regulated by custom or law, a rise in prices does not entail an increase in rents at all.

Connection between rents and prices

Cash rents and rents in kind

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—he might even be exempted altogether from payment. But cash rents have now been substituted for crop rents. These are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

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[1] *Imperial Gazetteer of India*, Vol. III.

Systems of tenure : Permanent Temporary

The systems of tenure under which land is held are various. Roughly speaking, the tenants or holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy subject to the regular payment of rent. In some cases falling into this category, the tenants are entitled to hold at permanently fixed rates, and their right is heritable and transferable ; in others, the rent can only be enhanced on certain definite grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year.

Condition of peasants of the two classes

Tenants of the first class, together with those cultivators who own their lands, may be described as analogous to peasant-proprietors. Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-house, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. The condition of the tenants of the second class is generally miserable.

Rent of mining lands

So much about the rent of land used for purposes of cultivation. The rents of mining lands stand on an entirely different footing. The Government retains rights over the minerals and grants concessions for their exploitation in accordance with the rules framed by it. It also regulates the rents of mining lands.

Ownership of land

The ownership of land is one of the many disputed questions of Indian Economics. For economic purposes, each of the three parties connected with the land,—the State, the landlord and the ryot,—may be regarded as possessing a limited right. Besides, the Government itself is the direct owner of large areas of land in every State, such as waste land, land which has lapsed to or been purchased by the Government, and all public land. In regard to these, the Government stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue.

2. WAGES

Wages in villages

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce.

Custom still influences wages to a large extent. The amount of influence, however, varies according to the nature of the industry and the enlightenment of the labouring population.

Influence of competition

Competition is becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. Where the demand for labour is great, as in cities, the scale of wages is high. So also, wherever a demand for labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. In general, it may be said that, with the development of means of transport, a broad labour market is gradually evolving itself. Labour is not so immobile now as it once was. Industrial labour is often recruited from distant parts of the country.

Skilled and unskilled labour

Wage-earners in different employments are classified as skilled and unskilled labourers. The wages statistics are incomplete, and admittedly faulty. Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. The regularity of employment also varies greatly, it being continuous throughout the year in no part of the country. An average wage, therefore, for India generally has little meaning.

Kinds of wages

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are generally paid according to time. In the handicrafts and domestic industries, the usual system is of task-wages or piece-wages. In some cases, wages are regulated by special contract; in a few others, a certain minimum is agreed upon, and if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.[1]

System of payment

The system of payment was formerly in kind; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants, are still remunerated, wholly or partly, by a percentage of the crop-yield. There is a tendency, however, everywhere for money wages to be entirely substituted for wages in kind.

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[1] These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

About the last quarter of the 19th century, in response to a rise in prices, money wages substantially advanced. But the increase in wages did not always keep full pace with the rise in prices.

Rise in wages, real and nominal

During the War of 1914-18 and the quinquennium following it, there was a marked advance in the wages of all kinds of labourers in India. This rise in wages was the result of high prices which caused great hardships to all classes of labour, and the effects of which on industrial labour were so acute that in some places frequent strikes and lock-outs disorganised industries. The employers were in many cases obliged to concede the demands of labour, with the result that the wages were doubled. Later on, however, there was a fall in the cost of living, and consequently, a tendency towards a reduction in wages. The outbreak of World War II again caused a rise in prices. Naturally, demands for a rise in wages were made in all industries.

With the outbreak of the Second World War money wages registered sharp rises. But these rises in money earnings of labour could not keep pace with the movement of prices which rose to unprecedented heights during the war. The result was that the average real earnings fell. The broad fact is that since 1939 labour as a whole improved in the organised industries its real as well as its money earnings, in spite of the fact that in these industries real earnings dropped on an average by 13 per cent. This improvement was secured by greater employment as well as by labour acquiring a greater share of the net value added by manufacture. But employment commenced to decline after 1945-46 and the share of labour is again tending to decline.

In agriculture, a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of agricultural produce is due to a larger demand and extra profits are obtained, the expansion of business increases the demand for labour and leads to a rise in wages.

Connection between prices and wages

3. INTEREST

Until recently, the capital of many of the large industries in India was raised in Europe, and the interest on such capital, together with the profits, had to be paid abroad. The subscribed capital of a firm is rarely sufficient for the carrying on of its business. Every firm has, therefore, to borrow money on many occasions. These loans are obtained generally from the banks.

Capital largely raised in Europe and borrowed from banks

Rates of interest

The rate of interest depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also vary at different times and in different parts of the country. The rates of interest in the interior of the country are considerably higher than the rates prevailing in the cities. Even within the limits of the large towns the rates are not uniform, those charged by the smaller indigenous money-lending concerns being higher than the rates of the Exchange Banks. The rate of interest charged by the first class banks varies from day to day according to the demand for money; it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. On their deposit side, the banks keep the moneys of individuals and public bodies, on which they usually pay interest, the rates being lower than those at which they lend. The Government and other public bodies also occasionally borrow money from the banks and sometimes float loans in the open market. The rate of interest on the recent loans floated by the Central Government in India has for some time past been 3 per cent., but for small saving investments a National Certificate Scheme for twelve years at 3½ per cent. interest was inaugurated a short while ago.

The money-lender

Agricultural capital is supplied by the village money-lender. The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, on which he has to pay high rates of interest, sometimes 20 per cent. The practice of borrowing money is almost universal. In many cases the agriculturist becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

The money-lender and the debtor

Usual arrangements

A large part of the agricultural community appears to have a kind of running account with the mahajan. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief; and the consequence is that a large proportion of the cultivating community is seldom free from the mahajan's influence. The system is not without its advantages in hard times; it is to the interest of the creditor as well as the debtor that the latter should live. There is a community of interest which secures him from starvation.

The money-lender a dangerous necessity

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him some service, in so far as he enables him to live. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity.

Need of facile credit

Credit is almost an inevitable condition of small farming. The farmer needs credit for the purchase of land; for permanent improvements, such as the digging of wells; for equipment, including implements and cattle; and as working capital for buying manures, seeds and fodder, as well as for paying the labourers. Facile credit, though often beneficial, has also its drawbacks. It is like a double-edged weapon, for it may lead ignorant and thriftless cultivators to further indebtedness. Easy credit sometimes means reckless borrowing, and often for purposes other than those which help to increase the volume of production.

Its danger

Measures for checking peasant's indebtedness

Land Alienation Act

Co-operative Societies Act

Various measures have been proposed from time to time to check the indebtedness of the cultivator and thus to improve his economic condition. Some measures have been enacted by the Government in this connection, the most important of these being the Punjab Land Alienation Act and the Co-operative Societies Act. The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest and, at the same time, furnish safeguards against improvident and reckless borrowing.

Check for usury

Another method is to check usury by legislation. This subject engaged the attention of the Government of India for a considerable time, and the Usurious Loans Act was passed in 1918 and amended in 1926. It provides that, in proceedings for the recovery of a loan, the court, if satisfied that the interest claimed is excessive and that the transaction is substantially unfair, may reopen the contract and grant an equitable decree. The action under the law is not obligatory, but discretionary. Further legislation has recently been enacted in most of the States with the object of helping the debtor. But mere legislation cannot solve the problem of agricultural indebtedness.

4. PROFITS

Profits of manufacture compared with those of agriculture

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-earning occupation, agriculture is not so profitable as manufacture.

Statistics

Full details regarding the profits of the different industries of India are not available; but from the reports published by the larger business firms we gather that they vary very much. There are no general rates of profit. Profits were at one time large in the mining and jute industries. During World War II, some of the concerns declared very high dividends, but in many cases the profits were more nominal than real, as the rates of taxation were extremely high. But the situation has now considerably changed. Statistics of profits in the small industries are very difficult to collect, but it will not be incorrect to say in a general way that they are comparatively low.

So much for the distribution of the produce. It is not necessary, however, that the shares of the different agents in production should always go to different persons. It may happen that all or most of the factors are controlled by the same individual, and in such a case all or most of the shares would go to him. India is a country mainly of small industries which are carried on by the workers on their own account. They supply the labour as well as the small capital required for the industries, and they are themselves the organisers. In a large number of cases, therefore, the question of distribution does not arise at all. In the institution of peasant proprietorship also, as we have seen, there is not much in the way of distribution among different parties. Thus the economic problems of India were, until recently, mainly those of production rather than of distribution. But with the growth of large-scale industries the problems of distribution have, during the last few decades, assumed considerable importance. The wage-problem, in particular, has already become acute, as it is one of the main causes of industrial unrest in various parts of the country. This question must be considered from the standpoint of labour as well as of the successful development of industry in India. Unless the problems connected with distribution are handled with due care and forethought they are likely to become more complex and difficult in future.

CHAPTER VIII

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in ancient times

Even in the earliest times, trade between India and her neighbouring countries was carried on by land as well as by sea. As early as four thousand years before Christ, India had intercourse with Egypt, Mesopotamia and other river-valley countries. In the seventh and sixth centuries, B.C., India had commercial relations with Italy, Greece, Egypt, Phœnicia, Arabia, Syria, Persia, China, the Malay Peninsula and the islands of the Indian Archipelago. The Hindus built ships and navigated the ocean as early as the age of Manu's Code, and several seaports grew into importance. This maritime commerce increased gradually, and in course of time attained considerable proportions. The chief articles of export were apparel made of silk or cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics, while those of import were gold, silver, brass, copper and tin. A brisk coastal trade was also maintained between the seaport towns.

by sea

by land

Trade by land existed with Central Asia, China and other parts of the Asiatic continent as early as Kautilya's time, and later, also with some countries of Europe. There were several trade-routes which were availed of by the merchants. Besides, an active internal trade was maintained between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

In mediaeval times

Commercial activities were continued in full vigour till the ninth or tenth century, A.D. After this date, however, maritime commerce was gradually abandoned; but trade intercourse by land was maintained. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and Europe, so much easier, cheaper and safer than any that had previously been used, as to change completely the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was once again started—this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the

In modern times

French and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the British East India Company was able practically to oust the other companies from the Indian waters. The invention of steamships led to a further increase in maritime commerce. Lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

The foreign trade of India is now steadily increasing. The bulk of the internal trade is in the hands of Indians.

2. THE SYSTEM OF INLAND TRADE

Indigenous system of internal trade

The village trader

Fairs and religious festivals

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.

Two parts of internal trade

Growth and decay of towns

A portion of the village produce is sold in the village market for local consumption, and the surplus is handed over to the agents from the towns to be thence despatched to trade centres in other parts of the country or exported out of it. Imported merchandise is distributed by the same machinery working in the opposite direction. Internal trade may be divided into two parts : (*a*) traffic with the ports and (*b*) trade between different parts of the country. The former is largely concerned with the collection of agricultural products for export, and with the distribution of imported merchandise ; the latter with supplying the surplus produce of one part to the other parts of the country. Trade passes through the hands of a considerable number of middlemen. Towns spring up where trade activity increases, and historical cities lose their importance as soon as they cease to be trade centres.

Trading castes

Employment in trade often gives rise to trading castes. These castes have now lost much of the importance which they once possessed. The Marwaris of Rajputana are found in almost every part of the country. In Madras the Chettis form the most important trading community. In Bombay State the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India. Among the Muslims the most notable commercial classes are the Borahs and Khojahs of Bombay and Gujerat.

3. MEANS OF COMMUNICATION

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels and asses, or carts drawn by these animals, were the only instruments of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still used for carrying goods to the towns, ports or railway stations.

Means of communication in early times

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu, as well as the Mahomedan rule, roads and canals were constructed, which connected outlying districts with the capital. Major Briggs, speaking of these roads, remarks that, for bold engineering they "deserve to rank with the works of the old Romans." Their number, however, was few and they were not always kept in a satisfactory condition. Rivers furnished means of communication and some facilities of transport, but were found insufficient for the purpose of keeping up a constant intercourse between the different parts of the country throughout the year.

Railways

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy. During the later years of the Company, however, matters began to improve, and after the Mutiny of 1857 the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers having been bridged and the other natural obstacles overcome. Over thirty-five thousand miles of railway are now open to traffic.

Roads

The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another and with the railways. Road transport has, in recent years, received an impetus from the use of motor vehicles, and the gradually extended use of such vehicles is sure to add to its importance in future.

Motor transport developments have, however, created a problem for the railways in many cases, due to intense competition, particularly, in short-distance traffic.

Aviation

Civil aviation is making rapid progress in India in post-war years. Both inland and overseas air services have considerably developed.

Steamship communication

Steamship communication has been developed in those parts of the country where the rivers are navigable, but a further extension of riverine navigation is desirable. The canals also afford some facilities of communication and transport. It is, however, in maritime transport that the greater development has taken place.

Communication of intelligence

Lastly, the post office, the telegraph, the telephone and the wireless afford facilities for the communication of intelligence, so that even slighter alterations in trade conditions in one part of the country immediately make their influence felt not only in the most remote corners of India but throughout the civilised world.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

Internal trade

In a vast country like India the internal trade cannot but be immense, and the volume is daily increasing. The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports; the balance—about a third—is the trade within the different States of India. The traffic from the ports to the interior of the country consists principally of foreign merchandise imported by sea, while that to the ports from the interior comprises chiefly raw materials. Among the States West Bengal's position in the inland trade is high on account of jute, rice and other food-grains, oilseeds, coal, jute goods and tea produced in the State. Bihar, including Chota Nagpur, is important for its enormous production of coal and other minerals.

Tea is the staple product of Assam. Cotton, wheat and seeds in Bombay State, cotton and groundnuts in the State of Madras, and spring and winter crops (*e.g.*, wheat, gram, linseed, rapeseed, etc.) in Uttar Pradesh and East Punjab chiefly account for the large movement of these articles to the various seaports. Uttar Pradesh, being well served by railways, conducts a larger business in purely inland trade than any other State of India. The inland trade of the country is much larger in volume and value than its sea-borne trade. But the foreign commerce of India is very important from many points of view. The coasting trade of the country is considerable.

Foreign commerce

The First World War produced a very stimulating effect on India's foreign trade in some important lines of export, such as iron and steel, leather and jute goods, and cotton manufactures. But in other respects the growth of India's foreign trade received a serious set-back.

Changes during World War II

During the War years of 1939-45 important changes took place in the structure of India's international transactions. These changes were: first, a diminution in India's payments on service account owing to the accumulation of sterling assets in her favour and the repatriation of most of her sterling debts; secondly, an improvement in her terms of trade due to the relatively greater rise of the prices of primary products and the significant importance of India as an exporter of manufactured articles; and, thirdly, a restriction in gold movements due to many external and internal factors.

At the close of World War II, India's balance of payments position became stronger. But there were some elements of weakness. Food, which did not figure much in India's pre-war imports—her net imports in this respect being on an average only about 0.5 million tons per annum—now came to be imported on a scale five or six times greater than before. The demand for certain kinds of machinery urgently required for heavy arrears in repairs and replacements could not also be postponed any longer.

Soft and hard currencies

The distinction between soft and hard currency areas, which arose after World War II, created another problem. It now became essential to achieve not merely an over-all balance but also a balance in respect of hard currency areas. The changes in the structure of India's foreign trade during 1946-49 were far-reaching. The main cause was Partition and the economic consequences thereof were noticeable in the most spectacular manner in the altered pattern of India's foreign trade. As a result of Partition, the resources of many staple commodities and raw materials which had figured as important categories of pre-war exports now belonged to Pakistan. From an exporter of raw jute and raw cotton, the Indian Union has been turned into a heavy importer of both these articles. A good part of the total exports of hides and skins in pre-partitioned India now belongs to Pakistan. It is jute manufactures and tea that have now become prominent among India's export resources. But the production and export of jute manufactures are greatly affected on account of paucity in the supply of raw jute from Pakistan. Although India has got all the 104 jute mills, she is not self-supporting in the production of raw jute and she has to depend on Pakistan for the supply of raw jute. The import of raw jute from Pakistan has not been satisfactory and adequate on account of strained relations between the two countries. Although, therefore, the jute manufactures have retained their prominent position in the export trade of India, they have been considerably affected in volume because of falling production. On the import side, the most directly visible change has been the large imports of foodstuffs. The deterioration in the ratio of exports to imports is mainly due to the large importation of foodstuffs. They are also one of the principal causes of India's deficit with hard currency areas.[1]

Pre-war and post-war patterns of India's exports

There are many obstacles to the development of India's exports. One is the price factor. On account of high prices, Indian commodities find it difficult to stand the competition of foreign goods in the world markets. Some commodities which could earn hard currencies are also being diverted to soft currency areas because of their prices. Another factor is the growth of internal demand. The development of synthetic products and substitutes constitutes a third important obstacle to the expansion of our exports. But in spite of these hindrances, the export trade greatly improved in 1949-50, while vigorous restrictions kept imports down.

In 1949-50, India imported merchandise worth 560.04 lakhs of rupees and exported merchandise worth 483.80 lakhs of rupees, leaving an unfavourable trade balance against India of Rs. 76.24 lakhs of rupees. But as a result of devaluation and the adoption of many measures with the object of stimulating the export trade and restricting imports, the adverse balance of trade was wiped out and converted into a substantial favourable balance in 1950.

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[1] For purposes of import into and export from India, the list of hard and soft currency countries is now as follows :—

(a) Dollar Area :
    U. S. A. and any territory under sovereignty of the U. S. A., Canada (including Newfoundland).
    Other American Account Countries, consisting of Phillipine Islands, Boliria, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Salvador and Venezuela.
(b) Hard Currency Areas :
    Argentina, Switzerland and Japan.
(c) Medium Currency Areas :
    Portugal and her possessions (excluding Portuguese India).
(d) Soft Currency Areas :
    All other countries, except Pakistan and the Union of South Africa.

India's main imports now consist of foodstuffs, capital goods and machinery, while her exports include textiles, jute manufactures, raw jute, manganese, mica, oil and oil-seeds, raw cotton, hides and skins.[1]

Carrying trade

The bulk of the carrying trade with India is done by British ships. During the year 1936-37, the tonnage under the British flag was nearly 65 per cent. The other countries whose vessels were engaged in the carrying business were : Japan, Germany, Italy, the United States of America, Norway, Holland and France. In 1948-49, as in pre-war days, the bulk of the carrying business with India was done by British ships. During the year 1948-49, the tonnage under the British flag was nearly 63 per cent. Indian vessels carried about 1.5 per cent., while other foreign vessels, besides British, carried the rest. Thus, there has been a slight improvement of 0.4 per cent. in the amount of carrying trade done in Indian crafts.

5. PRICES

Rise in prices

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency became more pronounced during the first two decades of the twentieth century. Prices soared very high between 1917 and 1920, the rise being specially marked in the case of foodgrains. The rise of prices in India was, to a considerable extent, part of the world-movement towards an increase in prices.

With the outbreak of the World War II in 1939, prices in India, along with those of other countries, began to soar upwards. By 1943 the prices reached unprecedented heights and afterwards the upward movement of prices continued. Since the attainment of Independence prices have been continuously rising. Prices in India have risen to immensely greater heights than the prices either in U. S. A. or Britain. The reason for this rise is to be found in the tardiness of the Government in adopting a vigorous system of price-control and rationing, such as prevailed in U. S. A. and in Britain, and the enormous amount of notes issued by the Reserve Bank of India. From 1943, when a system of price-control was first adopted in India, to the end of 1945, prices in India remained relatively stable, though at a level much higher than the 1939 level. Of course, the price-indices during this period took account only of controlled prices leaving out of account the exorbitantly high black-market prices.

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[1] For a detailed account of the composition and direction of India's foreign trade, see Part II of the book.

The end of the War in 1945 gave rise to speculation in certain quarters that the war-time rise in prices would be replaced by a recession in the price-level. But that expectation was falsified by subsequent events. Though war demands came to an end, the price-level showed no signs of decline; rather it rose upwards, though at a varying pace, and occasionally marked by temporary small recessions in certain sectors of economy. The rate of increase in the general index-number during 1946 and 1947 was very high. But the most significant increase was in the general and group indices during the four months ended February, 1948.

The post-war increase in prices may be attributed to the following causes : (1) deferred demand, (2) decline in production, both industrial and agricultural, due to communal disturbances, bottlenecks in transport, unsatisfactory despatches of coal, labour trouble, and talks about nationalisation creating lack of confidence in the business community, (3) continued budget deficits of Central and State Governments, both on revenue and capital accounts, and (4) drift, inefficiency and corruption on the part of the Government officials. Besides the announcement of the Government policy of progressive decontrol of foodgrains from 1947 gave rise to a sudden spurt in prices and the general index registered a sharp increase from 190.5 in January, 1947, to 381.0 in June, 1948. The Government of India realised the gravity of the situation and invited expert opinion in the second half of 1948 for checking inflation. On the basis of the recommendations of the experts, certain anti-inflationary measures were adopted by the Government. But there did not appear to be any appreciable decline in the level of prices. On the contrary, the general index of wholesale prices in 1949-50 registered an increase of over 9 points. In 1950-51, the general index of wholesale prices rose very sharply and in April, 1951, stood at 457.5. The index for 'Cereals' rose to 490. The basic remedy for checking the inflationary movement in prices is an increase in production, and so long as an expanding volume of production is not forthcoming, the reduction in the price-level will continue to be very difficult. Stringent measures are also necessary for eliminating black-marketing and profiteering, as well as adm inistrative inefficiency and corruption.

CHAPTER IX

EXCHANGE (*Continued*)

CURRENCY AND CREDIT

1. CURRENCY

Antiquity of money in India

MONEY was in use in India in the very earliest times of which we have any records. Various kinds of coins made of gold, silver and copper were current; and many other substances, such as clay, lacquer and shells (*cowries*) were also used for exchange purposes.

In the Nineteenth Century

India—a silver-standard country till 1893

Gold Bullion Standard

In the beginning of the nineteenth century, some parts of India maintained a gold standard and a gold currency; elsewhere, a silver standard continued with gold coins in concurrent circulation. Throughout the nineteenth century, the currency policy of the Government of India was marked by hesitancy and inconsistency. But the net effect of their orders and instructions was that India remained a silver-standard country from 1835 till the closing years of the last century. The currency system which was developed as the result of the recommendations of the Herschell Committee of 1893 and the Fowler Committee of 1899 and of the subsequent action taken by the Government came to be known as the Gold Exchange Standard. This system broke down during the later stages of the World War I. In 1920, the Babington-Smith Committee submitted a report, but the attempt to give effect to some of its recommendations led to disastrous results. In 1927, in accordance with the recommendations of the Hilton Young Commission of 1926, two Acts were passed under the provisions of which a Gold Bullion Standard was established in India and the exchange-value of the rupee in relation to gold was fixed at the rate of 1s. 6d. The essential features of this standard are that, while the ordinary medium of circulation should be the currency note and the silver rupee, and the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold, gold should not circulate as money. After the suspension of the Gold Standard in England in September, 1931, the Gold Bullion Standard was suspended in India and the rupee was linked to sterling at the 1s. 6d. ratio. Thus India was made to adopt what was in effect a Sterling Exchange Standard.

This system continued till 1946. Since the establishment of the International Monetary Fund in 1946, the rupee has been delinked from sterling as India is a member of the Fund. The Indian rupee is now linked direct with gold.

There was on the whole a marked stability of the rupee-sterling exchange between September, 1931, and the close of the year, 1937. The chief explanation of this exchange-stability is to be found in the regular exports of huge quantities of gold from India from September, 1931, to the end of 1937. But, later on, the exchange position became difficult. Indeed, trouble began to arise early in 1938 when the balance of merchandise trade in favour of India considerably declined. The exports of gold also declined substantially during this period. The result was a fall in the rupee-sterling ratio. The Government, however, decided to maintain the existing rate of exchange in spite of persistent opposition within the country to this policy.

Paper Currency

Issue by the Government

The Reserve Bank of India

The origin of the paper currency system in India may be traced back to the bank-notes issued in the early days of the East India Company by private banks. Later, the three Presidency Banks of Bengal, Madras and Bombay were empowered to issue notes. By the Paper Currency Act of 1861, the right of note-issue by private banks and Presidency Banks was abolished and the Government undertook the monopoly of note-issue. Since 1935 the right of note-issue has been transferred to the Reserve Bank of India. There are special provisions in the Reserve Bank of India Act regarding the reserves to be held against the paper notes issued.

2. CREDIT

Credit

The indigenous system

Credit is an indispensable factor in all business undertakings. In the towns there are Indian bankers, or *shroffs*, who generally do banking business on a small scale. They finance the internal trade of the country. They occasionally lend money on Government paper or other securities, but the bulk of their business consists in the discounting of traders' *hundis* and in making advances to cultivators. In villages, as we have seen, the *mahajan* lends money to the agriculturists and other people in the neighbourhood. He knows the affairs of his constituents intimately. and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*), or pawns of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajans* and *shroffs* amounts to an

Inadequacy of banking facilities

enormous sum. In no advanced country in the world are banking facilities so inadequate as in India. The number of banking offices is extremely small relatively to the large population of India. The result is that the financial power of the country is "insufficiently mobilised."

The Reserve Bank of India

There is, however, a great variety in the Indian banking system. At the apex is the Reserve Bank of India constituted in 1935 to act as the Central Bank of the country. The Reserve Bank was originally started as a shareholders' bank. But it is now a State Bank. Next comes the Imperial Bank of India, which, by virtue of its predominance and special position, stands in a class by itself. Then there are the Exchange Banks, all of which are foreign concerns. The Indian Joint-Stock banks form still another class.

The Imperial Bank of India

The Imperial Bank of India was formed by the amalgamation of the three Presidency Banks of Bengal, Madras and Bombay. Its constitution and management are regulated by the Imperial Bank of India Act of 1920 as amended in 1934. Before the establishment of the Reserve Bank, the Imperial Bank used to act as banker to the Government and also to a small extent as a bankers' bank. At present all these functions have been taken over by the Reserve Bank, but the Imperial Bank is even now a specially important banking institution in India.

Exchange Banks

Next in importance to the Imperial Bank of India are the Exchange Banks. These are concerned mainly with the larger operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as the foreign markets. Some of them have offices in different parts of the world. All these banks are owned by foreigners; but they have been able to attract substantial amounts of resources in the form of deposits from Indians.

Indian Joint-Stock Banks

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Most of them are managed by Indians themselves. The total amount of the business of these banks is considerable. Their business is mainly confined to the financing of the internal trade of the country. The number of Joint-Stock Banks in India was 504 in December, 1949. The aggregate paid-up capital and reserves of 422 banks amounted to Rs. 67.12 crores in January, 1951, the deposits to Rs. 888.03 crores and cash balances to Rs. 85.35 crores.

The Exchange Banks and many of the Indian Joint-Stock Banks are now included in the category of "Scheduled Banks." The "Scheduled Banks" are so called because of the fact that the Reserve Bank issues from time to time a schedule consisting of the names of the banks which are directed to maintain balances with the Reserve Bank. No bank can be included in the schedule unless the total of its paid-up capital and reserve-fund amounts to Rs. 5 lakhs. At present there are 91 " Scheduled Banks " in India.

The other credit agencies are co-operative banks, land mortgage banks, loan offices in West Bengal, *nidhis* and *chit* funds in Madras, and insurance companies.

The Government itself a great banker

The Government itself is also a great banker. Not only does it control the currency and exchange, but it holds in deposit moneys from the people in its Post Offices and Treasuries and pays interest on them. The Government also advances loans to cultivators for agricultural improvements and the purchase of land and cattle. This is done on a large scale in times of famine and scarcity. Further, some of the State Governments grant loans for the purpose of promoting nascent and cottage industries, purchase debentures issued by land mortgage banks, make advances to co-operative societies, and lend moneys to municipalities and district boards.

Indian Finance Corporation

State Finance Corporation Bill

The development of the Indian banking system on the stereotyped lines of English commercial banking does not fully meet the requirements of India. The supreme need of India at the present moment is the development of her industries. For this purpose a Finance Corporation Act was passed in 1948 and a Bill for enabling the State Governments to establish State Finance Corporations was introduced in Parliament in 1950.

CHAPTER X

CONSUMPTION

Relation between consumption and production

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent. On the other hand, without production there can be no consumption.

Standard of living

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life differs not only among individuals, but from class toc lass, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary needs are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary needs of life.

Varies in degree

and in kind

The standard of living, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral well-being. It would be taking a narrow view of Economics to confine the standard within the limits of physical needs. It should include higher ends as well. We may follow Marshall, who says : " Let us take the term, the ' Standard of Life ' to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy and self-respect, leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome, physically and morally."

The most expensive standard not necessarily the best

According to this view, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term " refinement." To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare,

The Indian standard

moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions and the religious and moral ideas of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not in itself a thing to be regretted. We must, however, distinguish between the standard of life which is the aim of religious teachings and moral precepts and that which results from economic circumstances beyond the control of these teachings and precepts.

Wants and activities

In recent years, many artificial wants have made themselves felt in India. It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Classification of articles of consumption

Economists divide articles of consumption into necessaries and luxuries. Necessaries, again, are sub-divided into necessaries for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessaries. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessaries to some may be luxuries to others.

Statistics of consumption

Reliable statistics of consumption in India are not available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population.[1] But as these commodities

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[1] The following table gives an idea of the decrease in consumption of the two most essential commodities in recent years :—

Consumption per head of the population.

	1939-40	1946-47	1947-48
Food consumption per head (in lbs.)	388	358	357
Cloth consumption per head (in yds.)	16	12	11

—*The Eastern Economist*, December, 31, 1948.

are not always the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any knowlege of the condition of the different sections of society in India. Figures relating to consumption in some towns and villages are sometimes given by the Government and some private agencies, but no systematic and thorough study of consumption on the lines of the work of Charles Booth, Seebohm Rowntree and others has as yet been attempted in India.

The first necessaries of life: Food

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called,—must be satisfied first. The primary wants are those of food, clothing and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessaries. Sir William Hunter observed in the last quarter of the nineteenth century that more than one-sixth of the people went through life on insufficient food. Sir Guy Fleetwood Wilson, at one time Finance Member of the Government of India, said in 1909: "A large proportion of the people are poor, an appreciable proportion very poor." As a matter of fact, a considerable proportion of the people are below what is known as the 'primary poverty' line, and large numbers of persons hardly get one full meal a day. It is doubtful if all persons belonging even to the 'middle class' get a sufficient quantity of nutritious diet.

Views of eminent officials

Clothing

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing, of course, becomes essential, especially in Northern India where the cold is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle-class people perhaps spend more on their clothing than they ought to, for in order to find money for their clothes they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress, but they represent only a microscopic minority of the total population. As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in the advanced countries of Europe and America.

The primary wants are necessaries for existence. An insufficient supply of these may just enable a person to keep body

Effect of inadequate consumption on production

and soul together, but is sure to be detrimental to his physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad and ill-lodged, the mass of the people lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-fed [1] and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to become less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.

Increased consumption necessary, but only of wholesome articles

The stinting of necessaries is always economically wasteful and there can be little doubt that production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink [2] and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, the objects of attainment should be health, happiness, and morality—not luxury. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from aug-

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[1] The consumption of food per head per year of the population in India was estimated as follows (in lbs.) :—

1939-40	1940-41	1941-42	1945-46	1946-47	1947-48
388	366	348	340	358	357

[2] Discussing the subject of drink, the Labour Commission in their Report observe that it is "a feature of the majority of industrial areas and has created considerable havoc in some of them." The reduction of drinking, it says, should not only effect improvements "in the health, efficiency and standard of living of the workers," but will also increase the taxable capacity of the people. The Report also notes that by ensuring for the worker better surroundings, less fatigue and increased facilities for amusement and recreation, considerable reduction in the consumption of drink may be expected.

menting our capacity, makes us "at once less wealthy, less healthy, and less wise."[1]

Since the beginning of World War II, the cost of living of the working class has greatly increased, but their earnings have not increased proportionally. The following tables give an idea of the cost of living of the working class.

TABLE A

Base : *August* 1939—100

	1948-49	1949-50	April 1950
BOMBAY STATE—			
Ahmedabad	341	343	366
Bombay	297	291	292
Sholapur	415	406	412
WEST BENGAL—			
Calcutta	345	349	333
UTTAR PRADESH (U. P.)—			
Kanpur	498	460	420
MADRAS STATE—			
Madras	320	330	327
MADHYA PRADESH (C. P. AND BERAR)—			
Nagpur	379	374	367
Jubbulpore	151	150	150

TABLE B

Base : 1944—100

	1948-49	1949-50	April 1950
DELHI—			
Delhi	133	132	129
AJMER—			
Ajmer	161	163	167
BIHAR—			
Jharia	154	163	169
Jamshedpur	137	138	134
ASSAM—			
GAUHATI	124	126	122
ORISSA—			
Cuttack	136	153	159
WEST BENGAL—			
Kharagpur	136	136	136

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[1] Sidney Webb, *Preface* to R. Jones's *Nature and First Principles of Taxation.*

Necessaries of a higher kind :

Of the physical necessaries proper housing comes next to food. In this respect also the existing conditions are deplorable. But there are necessaries of a higher kind which are of as much importance as those we have been discussing, and the failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure and recreation. The economic value of education is too well-known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance, particularly in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it exercises the greatest influence on happiness and morality. As a celebrated economist observes : " A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."[1]

Education, sanitation, leisure, recreation

Considerable increase of income needed

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the first necessaries of life. When an augmentation of income commences, the increments will, in the initial stages, go to make up the deficiency on the score of the primary wants, and the later increments will be devoted to the satisfaction of the higher needs.

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[1] Devas, *Groundwork of Economics.*

CHAPTER XI

PUBLIC FINANCE

GENERAL OBSERVATIONS

Importance of public finance

PUBLIC Finance is important because it is the fuel of the whole administrative machine. Besides, the finance of a country is a symptom and a gauge of the quality of its government.[1] It is divided into two parts, namely, income and expenditure. The revenue of the Government in India is derived from various sources. The most natural method would be to divide the State income into two parts, namely, non-tax-revenue and tax-revenue.

Direct and indirect

The Indian tax-system consists of both 'direct' and 'indirect' taxes. Land revenue and income-tax are 'direct.' Customs and excise duties are 'indirect.' Certain sources of revenue partake more of the character of profits from a commercial transaction than of a tax. It must be remembered in this connection that a hard-and-fast line of division cannot always be drawn between tax-revenue and non-tax-revenue or between 'direct' and 'indirect' taxes.[2]

2. CENTRAL AND STATE FINANCE

Division of financial resources between Union and State Governments

Union List

In India public finance may be divided into two main categories, namely, Central Finance and State Finance. The financial resources of the country have been distributed between the Union (Central) and the State Governments under the New Constitution of the country. The Union list includes (1) taxes on income other than agricultural incomes ; (2) duties of customs, including export duties, (3) duties of excise on tobacco and other goods manufactured or produced in India, except alcoholic liquors, opium and other narcotics ; (4) Corporatoin tax ; (5) taxes on certain capital assets ; (6) estate duty in respect of property other than agricultural land; (7) duties in respect of succession to property other than agricultural land; (8) terminal taxes on goods and passengers carried by railway, sea or air, taxes on railway fares and freights; (9) non-judicial stamp duties; (10) taxes on newspapers.[1]

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[1] *Government of India Despatch* (*Reforms*), dated March, 5, 1919.

[2] A tax is defined by Professor Bastable as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." A tax is said to be 'direct' when the burden of the tax falls on the person who pays it. It is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance.

States List

The proceeds of some of these taxes are to be kept by the Union Government for its exclusive use and of some others are to be divided between the Centre and the States, while the proceeds of the rest are to be assigned to the States.

The States list includes: (1) taxes on agricultural income; (2) duties in respect of succession to agricultural land; (3) estates duty in respect of agricultural land; (4) taxes on lands and buildings; (5) taxes on mineral rights, subject to limitations imposed by Parliament; (6) duties of excise on opium and alcoholic liquors; (7) taxes on the entry of goods into a local area; (8) taxes on the consumption or sale of electricity; (9) taxes on sale or purchase of goods other than newspapers; (10) taxes on advertisements other than newspaper advertisements; (11) taxes on goods and passengers carried by road or on inland waterways; (12) taxes on vehicles; (13) taxes on animals and boats; (14) tolls; (15) taxes on professions, trades, etc.; (16) capitation taxes; (17) taxes on luxuries including taxes on entertainments, etc.; (18) stamp duties.

The Constitution provides that some duties shall be levied by the Union but collected and appropriated by the States, while some taxes shall be levied and collected by the Union but assigned to the States. Taxes on income other than agricultural income are to be levied and collected by the Union and distributed between the Union and the States. The Constitution also provides for the imposition of surcharges by the Union and the payment of grants-in-aid to the States. Some excise duties levied and collected by the Union may be distributed between the Union and the States

3. CENTRAL FINANCE

Customs

Of the Central sources of revenue Customs used, until recently, to form the largest, but it has now yielded the first place to taxes on income. The import tariff consists of a long list of articles and duties are levied at different rates. These duties are either *ad valorem* or specific. Certain articles are imported free of duty.[1]

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[1] There is a third category, namely, local finance.

Export duties

The principal articles on which export duties are levied are raw jute, jute manufactures, raw cotton, rice, tea, cotton goods and manganese ores.

Yield from customs duties

The yield from customs duties now amounts to Rs. 156.04 crores.[2]

Income tax

The average rates of taxation payable in respect of personal incomes and business profits are now slightly higher than the 1950-51 rates.

Corporation tax

The yield from corporation tax now amounts to Rs. 32.73 crores and that from income-tax other than the corporation tax amounts to Rs. 132.22 crores.

Union excise duties

The yield from Union excise duties amounts to Rs. 79.62 crores. Tobacco contributes Rs. 37 crores to excise revenue, the other important items being cotton cloth, matches and tea.

Railway contribution

The railway budget was separated from the general budget in 1925 and it was arranged that out of the net profits a contribution was to be annually made to the general revenues. Under the new Convention of 1949, the dividend payable by the railways to general revenues is 4 per cent. on capital at charge of railways other than on unremunerative and strategic lines. The net contribution of railways to general revenues now amounts to Rs. 7.26 crores.

Currency and Mint

The income from currency and mint amounts to Rs. 12.32 crores and from civil works, Rs. 1.52 crores.

Other sources

The income from other sources of revenue amounts to Rs. 12.91 crores.

Posts and Telegraphs

Posts and Telegraphs used at one time to be a source of considerable profit to the Government but for some years past the income from this source has been dwindling. The yield from this source amounts to Rs. 2.33 crores.[3]

Chief heads of expenditure

The chief heads of expenditure of the Central Government are : (1) direct demands on revenue, (2) debt services, (3) civil administration, (4) civil works and miscellaneous public improvements, (5) miscellaneous, (6) defence services, (7) contribution and miscellaneous adjustments between Union and State Governments.

Defence services

Of the total expenditure met from revenue, defence services account for Rs. 180.02 crores or 47.9 per cent. The amount spent annually in India on defence is disproportionately large as compared with the moneys spent on nation-building subjects and constitutes an exceedingly heavy burden on the people.[1] Our commitments in Kashmir and the present world situation, however, have increased our military expenditure.

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[1] The principal articles which are imported free of duty are grains and pulses, wheat, wheat flower, sago flour, stick or seed lac, metallic ores, all sorts of metallic ores except ochres and other pigment ores, sulphur, bleaching paste and powder, quinine and other alkaloids extracted from cinchona bark, manures, hides and skins, raw wool, wool tops and raw rubber.

[2] Budget, 1951-52.

[3] Throughout the British rule another important source of revenue was the salt tax. But in view of the fact that it is a vital necessity of the people it has recently been abolished.

Direct demands on revenues

Charges of collection constitute the bulk of what is shown in the accounts as Direct demands on the revenues. This is a necessary item of expenditure, but there seems to be considerable room for the practice of greater economy in all departments of collection. The total amount to be spent under this head in 1951-52 is Rs. 14.35 crores.

Debt services

The debt services include (*i*) interest on the ordinary debt and other obligations and (*ii*) provision for reduction or avoidance of debt. Unlike in pre-war years, when about one-half was held in England, public debt is now almost wholly internal.

Amount of public debt

Excluding the liability for the British War Loan (Rs. 21 crores) and Railway annuities (Rs. 11 crores) and including dollar loans of Rs. 24.60 crores the total public debt amounted to Rs. 2,057 crores at the end of March, 1951. The expenditure under the head 'debt services' comes up to Rs. 37.32 crores.

Civil Administration

The expenditure under the head 'Civil Administration' accounts for Rs. 54.29 crores. This expenditure has increased largely during the last two decades. This has been due to a considerable enhancement of the emoluments of officers of all grades, particularly the higher, as well as to an unnecessary multiplication of offices and departments. A substantial reduction in expenditure on 'civil administration' is, therefore, absolutely necessary.

Miscellaneous

Expenditure under Miscellaneous accounts comes up to Rs. 44.60 crores (including subsidy on imported food-grains supplied to the States, Rs. 21.32 crores, and bonus to States on internal procurement of food-grains, Rs. 4.0 crores).[2]

Capital receipts and disbursements

The annual capital budget is also important. The chief heads of capital receipts are: New loans (Rs. 104.84 crores), Post Office Savings Bank deposits (Rs. 18.65 crores), National Savings Certificates (Rs. 17.0 crores) and Treasury savings deposit certificates (Rs. 12.0 crores). The main heads of capital disbursements are railways (Rs. 19.62 crores), industrial development (Rs. 10.56 crores), civil works (Rs. 12.47 crores), defence capital outlay (Rs. 12.97 crores), schemes of Government trading (Rs. 13.86 crores), discharge of permanent debt (Rs. 90.71 crores), advances to State Governments (Rs. 62.62 crores), Posts and Telegraphs (Rs. 5.45 crores) and multi-purpose river schemes (Rs. 2.44 crores).

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[1] The League of Nations recommended some years ago that the military expenditure of a nation should not exceed 20 per cent. of its revenue. According to this view, India's military expenditure should be about 75 crores of rupees.

[2] Budget, 1951-52.

Revenue Account

The budget of the Government of India for 1951-52, as presented by the Finance Minister on the 28th February, 1951, was estimated to show a surplus of Rs. 26.10 crores on revenue account, the estimated revenue and expenditure being Rs. 401.89 crores and Rs. 375.79 crores respectively.

Capital Account

In the budget the receipts and disbursements of the Government of India on capital account for 1951-52 are placed at Rs. 165.33 crores and Rs. 243.16 crores, leaving a deficit of Rs. 77.83 crores. In order to meet a part of this huge deficit on capital account, proposals for fresh taxation to the extent of Rs. 31 crores were made.[1] The Select Committee on the Finance Bill, however, reduced these additional tax proposals by 20 per cent.[2]

Deficit

The estimated total disbursements of the Government of India for 1951-52 are Rs. 618.95 crores, inclusive of repayment of permanent debt and Rs. 528.24 crores, exclusive of debt repayment.

Transfer to the States

The resources to be made available to the States by the Centre in 1951-52 amount to Rs. 143.36 crores comprising Rs. 47.53 crores as share of income-tax, Rs. 33.85 crores as grants and Rs. 61.98 crores as advances. Total expenditure in 1951-52 on the relief and rehabilitation of displaced persons is Rs. 34.86 crores.

In the post-war-years, revenue receipts have been considerably increasing. Expenditures are also continuing at high levels.

Additional taxation in 1951-52 amounts to Rs. 50.74 crores, including Rs. 19.10 crores from the enhancement of railway fares. Inspite of the additional tax effort the over-all deficit (including both revenues and capital) for 1951-52 is Rs. 51.88 crores. This deficit is to be met by drawing upon the Cash Balance. Every effort should be made to observe economy to the fullest extent. Unless this is done, it will be impossible to curb inflation or to reduce the high level of taxation or to provide substantial sums for the well-being of the people.[3]

Strict economy essential

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[1] This is an innovation made by the present Finance Minister, Sri C. D. Deshmukh.

[2] Postal rates were also enhanced from the 1st May, 1951, involving further burdens on the people, but this additional charge has not been included here.

[3] *Reserve Bank of India Bulletin*, May, 1951.

4. STATE FINANCE

Part A States

The persistent trend in State Finance in post-war years has been high and increasing revenues and expenditure. The total revenue of Part A States [1] for the year 1951-52 has been estimated at Rs. 308.81 crores and the total expenditure at Rs. 311.61 crores, leaving a deficit of Rs. 2.80 crores.

Major heads of tax revenue

The major heads of tax-revenue of these States and their yield in crores of rupees are : share of income-tax received from Central Government (44.61), agricultural income-tax (3.20), sales tax (44.35), land revenue (39.86), excise (24.95) and stamps (18.57). Income-tax receipts (including agricultural income-tax) are : Rs. 47.81 crores, being the largest item of tax-revenue. Sales-tax, which is a recent imposition, has now become an important source of revenue and comes next. In recent years, in all the States, except Bihar, the yield from excise duties has been declining.

Land revenue, which at one time was the principal source of revenue, now occupies the third place. The revenue and expenditure of these States are shown separately in the Table below :—

1951-52 *Budget*

(*In lakhs of rupees*)

Revenue and Expenditure in the States

		Revenue	Expenditure	Surplus (+) or Deficit (-)
Madras	..	59,63	60,30	−67
Bombay	..	60,64	60,60	+4
West Bengal	..	34,05	38,81	−476
Uttar Pradesh	..	61,26	61,51	−25
Punjab (I)	..	16,63	16,84	−21
Bihar	..	35,97	31,13	+484
Madhya Pradesh	..	20,45	20,31	+14
Assam	..	9,62	10,60	−98
Orissa	..	10,56	11,51	−95
Total	..	308,81	311,61	−280

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[1] The nine States, namely, Madras, Bombay, West Bengal, Uttar Pradesh, East Punjab, Bihar, Madhya Pradesh, Assam and Orissa are called Part A States. They were autonomous Provinces until the coming into existence of the New Constitution of India.

Expenditure out of revenues

The major heads of expenditure of these States are : security services, social services, direct demands on revenue, irrigation and debt services. Social services, which include expenditure on education, medical and public health, agriculture, veterinary, co-operation, industries and others, account for Rs. 96.09 crores or 30.84 per cent. of the total expenditure for 1951-52. Security services, which come next, account for Rs. 90.40 crores or 29.01 per cent. of the total expenditure. Inspite of the attainment of Independence, expenditure on security services has not declined ; on the contrary, in recent years it has shown a tendency to increase. Thus in 1950-51, the total expenditure under this head came up to Rs. 84.19 crores, but in 1951-52, it was estimated at Rs. 90.40 crores. Of the social services, education is the most important item, taking up Rs. 45.69 crores or 47 per cent. of the total provision for social services. Next to education, come medical and public health services with Rs. 21.72 crores.

Thus education and medical and public health services account for 70 per cent. of the social services expenditure. Education being the chief item under social services and police under security services, expenditure on these sub-heads may be noted. Madras, Bombay, Madhya Pradesh and Assam have provided more for education than police ; the expenditures of Uttar Pradesh and Orissa are about even under the two heads. West Bengal, Punjab (I) and Bihar have larger expenditures on police than on education.[1]

Capital expenditure

Total capital expenditure of the States not charged to revenue for 1951-52, has been placed at Rs. 109.60 crores. Multi-purpose river valley schemes, irrigation, electricity, housing and zamindari compensation are the main heads of capital outlay. Of the total expenditure of Rs. 109.60 crores, East Punjab accounts for Rs. 25.44 crores, Madras for Rs. 22.58 crores, while the share of West Bengal is only Rs. 14.53 crores.

Deficits not avoided in most Part A States

The Central Government have been calling for some time past for an end of the era of deficit budgeting as a means of tackling inflation in India. But inspite of their best efforts only three out of nine Part A States have been able to avoid deficits. Only one of the States, namely, Madhya Pradesh, expects a substantial surplus for 1950-51, and only one, West Bengal, shows a large deficit. But, as is well-known, the difficulties of West Bengal are peculiarly great, not merely because it is a border State but also because it has been placed under special financial handicaps, due to the revision of its share

Deficit in West Bengal's budget

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[1] *Reserve Bank Bulletin*, April, 1951.

of the divisible pool of the income-tax and of the deprivation of the jute export duty, while its additional liabilities due to Partition, particularly in regard to relief and rehabilitation of refugees, have enormously increased.

Part B States

The following Table gives the main heads of revenue and expenditure of Part B States[1] for 1950-51 :

(*In lakhs of rupees*)

Revenue		Expenditure	
Customs ..	7,58	Direct demand on revenue ..	8,85
Income-tax ..	1,56	Irrigation ..	1,94
Land Revenue ..	16,55	Debt Services ..	3,88
Sales Tax ..	4,77	Security Services ..	22,35
Excise	20,07	Social Services ..	32,28
Stamps	2,60	Others	21,53
Others	37,20		
Total ..	90,33	Total ..	90,83[2]

Of the total revenue of the States, two-thirds is tax revenue ; of the non-tax revenue, Rs. 10.12 crores is by way of grants from the Central Government. The major contributions to tax revenue are from excise (mostly ' Provincial ') and land revenue, the percentages being 33 and 27 respectively. Land revenue is the most important source of revenue for Saurashtra, Rajasthan and Madhya Bharat and excise is the main item for Hyderabad, Mysore, Travancore-Cochin and PEPSU. The agricultural income-tax is levied only in two States, Travancore-Cochin and Hyderabad, and the yield is rather small in the latter.

The sales tax is still not a well-developed source of revenue forming, as it does, about 8 per cent. of the total tax revenue.

Criticism and suggestions

Economy measures are very important in the States. They should try to reduce expenditure, particularly, in administration and security services, and should also carefully consider the available resources before embarking on development schemes. The system of financial allocation between the Centre and the States which has just been adopted has many defects and few merits. The main defect is that, while a heavy and expanding burden of duties and responsibilities has been placed on the States, very few expansive sources of revenue have been allotted to them. It is unfortunate that grants-in-aid, which bless neither the giver nor the receiver, and which were repeatedly condemned in the past and discarded, have again found an important place in the present financial system. The net result of this allocation is sure to be that the States will be financially weak and dependent on the mercy of the Centre.

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[1] Former Indian States are now known as Part B States.

[2] *Reserve Bank of India Bulletin*, June, 1950.

CHAPTER XII

LAND SYSTEMS

1. STATE-LANDLORDISM

Tendency to regard Government as universal landlord

Legitimate conclusions from the theory

THERE is a tendency among officers to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. If this theory of State-landlordism be correct, two results would legitimately follow : (*a*) the landlords would sink into the position of a merely superior kind of tenants, and (*b*) the Government would be justified in demanding as its revenue the whole of the economic rent.

Baden-Powell's view

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land or to its right to an economic rent. B. H. Baden-Powell says : " Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for." The Government, as a matter of fact, bases its claim to land revenue on " the ancient right of the State to a share of the produce of the soil," that is to say, the levy of a tax on the land.

His standpoint.

The land revenue a tax

Baden-Powell looks at the matter from a practical point of view. He gives his final decision in the following sentences : " The land revenue cannot, then, be regarded as rent, not even in the raiyatwari lands. I should be inclined to regard the charge as more in the nature of a tax on agricultural incomes."

No absolute property in land

Regarded from this standpoint the Government is not the ultimate proprietor of all lands. As a matter of fact, there are hardly any absolute proprietors in India, but there are various grades of proprietory rights, each of a series of persons having some of the characteristics of a landowner.

2. PERMANENT ZEMINDARI SETTLEMENTS

Early settlements

During the early years of the East India Company's rule, the revenue settlements were made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. Government revenue was not easily realised, and large areas of cultivated land were turned into wild jungles. Lord Cornwallis and Sir John Shore, therefore, took up the idea of a permanent settlement.

Permanent settlement introduced in 1793

The Permanent Settlement was introduced in Bengal in 1793[1] and extended to Benares in 1795. In promulgating the measure the Government had two objects in view (*i*) security of the revenue and (*ii*) the improvement of the land. The hope was entertained that, if the land revenue were fixed in perpetuity, the landlord would have the greatest incentive to improve his estate. Further, it was expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

Objects

Views of earlier officials

The opinion of the Government officers in the early years of the nineteenth century was that the measure had been attended with great success. The Sepoy Mutiny and the famine of 1860-61 gave rise to a discussion on the desirability or otherwise of introducing a Permanent Settlement into the United Provinces of Agra and Oudh. Later, however, the official view underwent a change and there prevailed almost a unanimity of opinion among the Government officers to the effect that the system had completely failed.

Change in official attitude

Independent opinion

The earlier generations of Indian statesmen favoured the view that the Permanent Settlement of 1793 had been eminently successful, but the modern trend of Indian opinion regards the measure as a mistake. According to this latter view, it has deprived the State of the unearned increment of the land and has not conferred a proportionately large benefit on the great bulk of the people.

J. S. Mill's view

According to J. S. Mill, the measure proved a total failure as to the main effects which its well-meaning promoters expected from it. The landlords did nothing for the improvement of their estates, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist and other families, mostly the descendants of Calcutta money-lenders, now occupy their places, and live as useless drones upon the soil which has been given up to them.

One good feature

While the system of Permanent Zemindari Settlements has many defects, it undeniably has one good feature. J. S. Mill observed : " In this ill-judged measure there was one redeeming point. The ryots were reduced to the rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue but along with the evil the good also has been left undone."

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[1] A Decennial Settlement was introduced in 1789, which was made permanent in 1793.

The zemindar's right to the soil

A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense or only collectors of revenue. In the Rent Case of 1865 an authoritative opinion was delivered by the Calcutta High Court, in which the Judges held the view that the Bengal zemindars were, in their origin, not true landowners, but revenue farmers.

The zemindar a limited proprietor

Whatever may have been the original status of the zemindars, in practice as well as in the eye of the law, they are regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue and of the tenant to whatever rights are vouchsafed to him by law and custom.

3. LAND REVENUE SETTLEMENTS

Zemindari and raiyatwari tenures

With reference to the land revenue the tenures are divided into two kinds, zemindari and raiyatwari. When the revenue is assessed by the State on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as zemindari, but where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as raiyatwari. Under either system there may be rent-paying sub-tenants. The former system prevails in almost the whole of West Bengal, in Uttar Pradesh, East Punjab, and some parts of Madhya Pradesh and Madras, while the latter is found in Bombay, and the greater part of Madras. A *Mahalwari* (or *Mauzwari*) system prevails in some parts of the country.

The revenue settlements, permanent and temporary

The revenue settlements may be either permanent or temporary. The permanently settled districts cover most of W. Bengal and parts of Madras and Uttar Pradesh, while in the rest of India the settlement is for a period varying from ten to forty years. About 20 per cent. of the total area is held by permanently settled and 35 per cent. by temporarily settled zemindari proprietors; while the remaining 45 per cent. is held by temporarily settled ryots (or, in some cases, by peasant proprietors).

Nature of land revenue

Land revenue appears to the ordinary person to be a tax on rent. But the Government officers regard the rent as a deduction from the revenue. This view cannot be regarded as correct from the standpoint of either theory or history. Even at the present moment the Government do not claim that they are entitled to take the whole of the economic rent as land revenue.

Assessment methods

Rates

Assessment methods vary according to the kind of estate and its mode of working. In the temporary *Zemindari* settlements the Government usually takes about 30 per cent. of the rent as land revenue and in the permanent settlements about 25 per cent. on an average.

The burden

Indian patriots hold that the burden of land revenue is oppressive, that it is one of the causes of the extreme poverty of the masses of the people, and that it is a contributory cause of famines. On the other hand, the Government officers maintain that the land revenue is not excessive.

4. TENANCY LEGISLATION

The object of the tenancy laws of the Government in India is to protect the tenant against the effects of unfair competition and to secure to him the right conferred by custom. With this end in view many legislative enactments have been made in all the States.

5. FLOUD COMMISSION REPORT

Floud Commission:

Majority report

The whole question of tenancy laws and zemindari settlements in Bengal was investigated by a Commission presided over by Sir Francis Floud in 1938-40. The majority of the Commission definitely expressed themselves in favour of the abolition of the Permanent Settlement. They concluded that the system had developed so many defects that it had ceased to serve the national interests. They maintained that the Permanent Settlement and the Zemindari system should be replaced by a Raiyatwari system under which the Government would be brought into direct touch with the actual tillers of the soil. Government would then be able to initiate various schemes of agricultural improvement. The majority further recommended that the State should acquire the interests of all grades of tenure-holders and pay compensations at a flat rate for all interests. They also favoured the inclusion of fishery and mineral rights in the scheme of State acquisition.

Minority report

The minority report severely criticised the recommendations of the majority. It argued that the land revenue system of the Province was not in any way responsible for the decline of agriculture in Bengal and the State acquisition of the various rights in the land would be a hazardous experiment and would bring in a social revolution. They also held that the rate of compensation recommended was quite inadequate and there was no case for the purchase of fishery and mineral rights. The majority report roused a great controversy in Bengal. The Government seems to have accepted the view of the majority but has not so far prepared any scheme for the acquisition of the rights of the zemindars.

West Bengal

6. ZEMINDARI ABOLITION

Congress Election Manifesto of 1945

The Indian National Congress in its Election Manifesto of 1945 stated that the rights of the zemindars and all intermediaries should be acquired on payment of equitable compensation. In pursuance of this Manifesto, some of the States passed, a short while ago, and others introduced or were contemplating introduction of, Zemindari Abolition Bills. The Zemindari Abolition Acts of some of the States were declared invalid by the High Courts concerned. But, at the instance of the Government of India, Parliament has recently validated these Acts by amending the Constitution. This amendment of the Constitution has now been challenged before the Supreme Court of India.

Inflationary possibilities

The Governor of the Reserve Bank of India, sounded in 1948 a note of warning in regard to the inflationary possibilities involved in the payment of the huge compensation that would be necessary to pay out the zemindars.

Reserve Bank views

Financial

The views of the Reserve Bank of India regarding financial implications are as follows : The zemindari system is proposed to be abolished over an area of 1,700 lakh acres of land in the seven States of Madras, U. P., Bihar, Madhya Pradesh (including merged territories), West Bengal, Orissa and Assam. No attempt has yet been made to discuss the question of fair compensation. The total compensation cost in the seven States is estimated at Rs. 414 crores and the increase in the revenue to the Governments concerned at Rs. 19.5 crores per annum, which is over 4.7 per cent. of the compensation to be paid. The payment of the entire amount or a substantial part of the compensation in cash or in negotiable bonds at the present juncture is impracticable, except in the case of Madras. The main part of the compensation will, therefore, have to be paid in the form of annuities or non-negotiable bonds. Under the abolition schemes the zemindars would be allowed to retain sir or *khudkasht* (private) land and continue to enjoy income from it. The maturity of the non-negotiable bonds should be suitably spaced to avoid undue hardship to the zemindars.

Other aspects

But, apart from the financial aspect of the question, the subject deserves to be considered with the greatest care from the standpoint of the well-being of the nation as a whole. Zemindars played a very useful part in society in the past. They maintained schools and hospitals, constructed roads and excavated tanks and did everything for the improvement of agriculture. The zemindar's house was the place where the rural folk had the opportunity of corporate enjoyment. Zemindars were the natural leaders of the people and stood forth as their protectors in times of danger and difficulty, and as such they enjoyed the affection and regard of the people. But the situation has now completely changed. Absenteeism, rack-renting and oppression by the zemindar's agents prevail everywhere, and the zemindars are no longer loved and respected. The zemindari system is, therefore, doomed. But the abolition of the zemindari system need not be accompanied by the bestowal of absolute ownership of the land on the cultivators. Peasant proprietorship has some merits, but it is good only for small-scale agriculture. For the growing population in India we need large-scale production with scientific knowledge, mechanised equipment, large capital and proper organisation. State ownership is another solution, but it is not free from defects. The whole problem should, therefore, be considered not only from the theoretical, but also the practical, point of view, and undue haste should be avoided in a matter of such grave importance. The co-operative movement has not yet developed to such an extent as to provide a dependable solution of the question.

CHAPTER XIII

FAMINES AND SCARCITIES

History of famines

FAMINES were exceptional occurrences in Ancient India. When they did occur, adequate relief measures were undertaken by the State. The historians of the Mahomedan period have left records of several famines. On many of these occasions steps were taken to relieve the distress of the people.

During the rule of the East India Company, India suffered, in one part or another, from twelve famines and four severe scarcities. After the transfer of administration of India from the Company to the Crown there was quite a large number of famines and severe scarcities, the most noteworthy of them being the famines of 1865, 1868, 1873, 1876-78, 1896-97, 1899-1900 and 1942-43.

The Bengal Famine of 1942-43

The crisis in Bengal which developed gradually into the great famine of 1943 began towards the end of 1942. The demand for food for the military forces and the civil employees of the Government as well as for the industrial population in Calcutta and its neighbourhood grew immensely after the beginning of the Second World War; but the supplies did not increase proportionately. This great disaster was to a large extent a man-made famine, the like of which has rarely been witnessed anywhere in the world. A Commission with Sir John Woodhead, as Chairman, was appointed in 1944 to investigate the causes and effects of the famine and other relevant matters and to make recommendations for the prevention of such disasters in future.

The Report of the Commission may be summarised as follows :—

The economic level of the population previous to the famine was low in Bengal, as in the greater part of India. Agricultural production was not keeping pace with the growth of population. Shortage in the supply of rice in 1943 was one of the basic causes of the famine. After the fall of Burma in 1942, imports from that country ceased. Other circumstances arising out of the war also accentuated the disturbances to normal trade. It was necessary for the Bengal Government to undertake measures for controlling supplies and ensuring their distribution at prices at which the poor could afford to buy their requirements. There was delay in the establishment by the Government of India of a system of planned movement of supplies. The Bengal Government failed to secure control over supply and distribution and widespread famine followed a rise of prices to abnormal levels amounting to five or six times the prices prevailing in the early months of 1942. This rise of prices was the second basic cause of the famine.

Lack of foresight

In January and February, 1943, the Provincial Government endeavoured unsuccessfully to obtain control of supplies and to regulate prices. But the procurement operations were defective and the introduction of unrestricted free trade was a mistake. The arrangements for the receipt, storage and distribution of food supplies despatched to Bengal from other parts of India during the autumn of 1943 were thoroughly inadequate and defective. Famine was not declared. A Famine Relief Commissioner was not appointed till late in September. The expenditure on relief was limited on financial grounds. Between the administrative organisation of the Government and the public there was lack of co-operation. The impact of war was more on Bengal than on the rest of India. The 'denial policy' had its effect on local trade and transport.

Bengal Government's lapses

The Government of India must share with the Bengal Government responsibility for the decision to decontrol food in March, 1943. The Central Government erred in deciding to introduce "unrestricted free trade" in the Eastern Region in 1943 in preference to "modified free trade."

The Central Government's responsibility

The public in Bengal or at least a section of it, had also its share of blame. The atmosphere of fear and greed, in the absence of control, was one of the causes of the rapid rise in the price level. Enormous profits were made out of the calamity and in the circumstances profits for some meant death for others. Corruption was widespread throughout the province and in many classes of society. A million and a half of the poor of Bengal fell victims to circumstances for which they themselves were not responsible. There was a moral and social breakdown as well as an administrative breakdown.

People's failure

A famine throws large numbers of agricultural workers out of employment. Hundreds of thousands of people succumb to starvation or to diseases which lie in the wake of famine and those who are left behind remain in a condition more miserable than before—their resources crippled, health shattered, and capacity for work greatly impaired. A famine also means much to the Government. Loss of revenue and increase of expenditure combine to dislocate the finances. It

Effects of famine

Prevention necessary and possible would be extremely unwise, therefore, to minimise the importance of this serious question. If science and State effort have succeeded in making famines an impossibility in modern countries, there is no reason why they should be allowed to continue their ravages in India.

Famines recurring calamities Famines are, in fact, frequently recurring calamities in India. Some States are more liable to these calamities than others; but hardly a year passes in which some part or other of the country does not, in some degree, suffer from a famine or a scarcity.

Signals The first signal of an approaching famine is a failure of rains followed by a failure of crops. Prices rise high and the less efficient among the labourers swell the ranks of the unemployed. At the same time there is a contraction of credit and of private charity. Theft and robbery increase and a general restlessness is visible among the people. There is also a deterioration in the health of the people which often leads to epidemics of a serious kind.

Famine Code In order to cope with the famines all the States have their Famine Codes, which differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be maintained and also lay down the duties of all officers concerned when famine or scarcity is actually present and the various measures of relief to be adopted.

The plan of work recommended by the several Famine Commissions may be briefly described thus :—

First stage

(*i*) Liberal advances should be given for the construction of temporary and the repair of permanent wells, and for other village improvements.

(*ii*) Liberal advances should be given for the purchase of seed for the ensuing crop.

(*iii*) Test-works should be started and poor houses should be opened at the chief centres of population.

(*iv*) Relief cricles should be organised and the necessary inspections should be made.

(*v*) At the second stage test-works should be converted into relief works. All who apply and are able to work should be admitted to relief works and tasks and wages should be graduated to their respective strength and physical requirements.

The distribution of gratuitous relief should also begin at this stage and care should be taken to see that all persons entitled by the Code to receive it are brought upon the list.

Poor houses

Poor-houses should at the same time be started at all convenient centres for the reception of persons unfit to work who either have no homes or cannot conveniently be sent to their houses and of persons in need of relief who, though fit, refuse to labour.

Kitchen and minor measures

Of the minor measures of relief, the most important is that of kitchens intended mainly for the dependants of persons engaged on the relief works. The other measures are gratuitous or semi-gratuitous relief to *pardanashin* women and relief to respectable men, artisans, etc., and temporary orphanages.

Test stage

Before the rains break, and in time for the prudent use of money, large *takavi* advances should be given for cattle and seed and charitable food donations should be distributed. After the necessity for State relief has completely ceased with the growth of new crops, all relief operations should be closed.

Foresight, energy and sympathy essential for success

The success of relief measures depends very largely upon the foresight, energy and sympathy of the executive officers of the Government. Three things are necessary to be borne in mind: first, that it is desirable to take steps for warding off a calamity, if possible; secondly, that it is absolutely economical to start relief operations early; and thirdly, that for preventing loss of life and preserving the health and strength of the people, relief ought to be given liberally.

Causes and remedies

Physical

Of course, the most obvious and direct cause is drought. Disforestation has been pronounced by experts as a cause of insufficient rainfall and a more perfect system of afforestation than has hitherto been practised will, it is believed, go a long way towards preventing drought. The artificial supply of water by means of irrigation is of even greater importance and although something has been done in this matter, there is still a vast scope for the extension of canal irrigation as well as the construction of storage tanks, reservoirs and irrigation wells. Improved methods of agriculture and the adoption of a system of " dry cultivation " are also needed to ensure the production of crops. Sometimes, crops are destroyed by floods, against which an efficient system of river-training and drainage is the only safeguard. Insect pests also destroy crops, but with the aid of science, it ought not to be very difficult to check the evil.

Economic

Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas but the main reasons for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power to fall back upon. The Famine Commission of 1880 held that there was enough food in the country to feed the entire population, even in the worst years; and the Famine Commission of 1898 concurred in this view. The calamities which devastate the country from time to time are not, therefore, crop famines, but are money famines. It is not so much the lack of food which the people suffer from, but the want of resources with which to buy food. The general poverty of the people can be traced to several causes. Growth of population, extreme dependance of the people on a precarious industry like agriculture, decline of old handicrafts and the costly system of administration have all combined to worsen the economic condition of the people. Lastly, litigation, the custom of early marriage and those social habits which prompt improvident expenditure on ceremonial functions, add largely to the miseries of the people.

Measures for combating poverty

Besides introducing improvements in the method of agriculture every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts—large-scale industries, medium-size industries as well as small handicrafts and cottage industries. Reduction in public expenditure is urgently needed so as to make funds available for more necessary development of nation-building services. Greater moderation in the assessment of the land revenue, a definite limitation of the share of the State in the income derived from the land, will ensure to the cultivator the fruits of his labour and considerably improve his economic condition. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. The establishment of Arbitration Courts will decrease ruinous litigation.

CHAPTER XIV

THE FOOD PROBLEM

1. PRODUCTION

ALTHOUGH before the Second World War, India was an importer of rice to a small extent, mostly from Burma, she also exported small quantities of food to the neighbouring countries. There was no food problem as such until the second year of the War, when imports suddenly stopped with the Japanese occupation of Burma. The acuteness of the problem became serious during the Bengal Famine in 1943. Towards the end of the year the Government of India launched the Grow More Food Campaign. In the early stages it was decided to increase food production by intensive cultivation and diversion of acreage from cash crops to food crops.

Grow More Food Campaign, 1943

In 1945, immediately after the cessation of the War, an attempt was made to place India's food economy on a planned basis. The plan was expected to be completed by the year 1951. Meanwhile, the partition of the country had deprived India of large tracts of land raising food and cash crops, while food imports from abroad involved a huge drain of the country's foreign exchange resources. It became evident that the continuance of large imports of food-grains would mean the economic ruin of the country. In March, 1949, the Government of India announced their decision to stop all imports of food-grains after December, 1951, except in the case of a grave national emergency. The total consumption was anticipated to be 46.1 million tons. The deficit to be made up would amount to 4.4 million tons.

Food-self-sufficiency Plan, 1949

This Food Self-Sufficiency Plan gave a new impetus to the Grow More Food Campaign emphasised in 1947-48. A Commissioner for Food Production was appointed at the Centre with an expert Advisory Board. The Central Government also directed each of the States to create a similar machinery for quick and effective action. In order to meet the deficit, which was about 10 per cent. of the country's total food production, the Government of India considered various schemes for increasing production. These were of three categories, namely, short, medium and long-term programmes.

Short, medium and long-term programmes

In the short-term programme the Government proposed immediately to increase the yield from land then under cultivation by (*a*) production and distribution of improved seeds, (*b*) application of fertilisers and green manuring, (*c*) composting of farm-yard manure and town refuse and its application to the soil, (*d*) plant protection and (*e*) wider use of existing irrigation facilities. The medium-term projects included those for reclamation of weed-(kans) infested and jungle lands with the aid of 375 heavy tractors imported from the U. S. A. The long-term programme involved large irrigation schemes, which included also flood control and the development of water-power facilities. The Government plans envisaged the increased production of food-grains as well as of commercial crops.

Doubtful whether actually carried out

The list of measures professed to have been adopted by the Government to improve food production appears to be a very impressive one. But in spite of the food campaign there is now an insufficient supply of food in the country. This is attributed in official circles to natural calamities, such as cyclones, failure of rains in some areas and floods in others. But such natural calamities are not uncommon happenings in India, and foresight, imagination and administrative ability ought to have been able either to prevent them or to guard against their disastrous effects.

Actual results

The actual results of the vociferous Campaign for Food Self-Sufficiency undertaken by the Governments of India and the States during the last three years over the length and breadth of the country have been very poor. Many of the schemes were not actually carried out and the large sums spent by the Government did not reach the proper quarters. In brief, the failure of the plans may be ascribed to (*i*) corruption, incompetence and neglect of duty on the part of Government officers, (*ii*) greed, profiteering and black-marketing on the part of the traders, (*iii*) apathy and lack of confidence on the part of the general public and (*iv*) helplessness and hopelessness on the part of the agriculturists. The net effect is that, in spite of the importation of huge quantities of food-grains from abroad involving huge expenditure, inordinately high prices of food are causing great misery and suffering to the poor and middle classes all over India, and acute distress akin to a famine is prevailing in some of the States of the Indian Union.

Causes of failure of programmes

2. CONTROL

India's dependence on foreign food-grains is now quite substantial, extending as it does to about 10 per cent. of the total requirements of the country. Moreover, the character of our dependence on foreign food has also changed. We now import not only rice but large quantities of wheat in which undivided India previously enjoyed the status of a net exporter.

India's food-shortage

Dependence on foreign imports

Not only has the composition of imported grains changed, but the sources of supply are also now largely different. India formerly imported food mainly from Burma and Siam, but now, we have to go for the purpose to such distant lands as U. S. A., Canada, Brazil, Argentina, Mexico, Ecuador, Australia and Russia. As most of these countries are hard-currency territories, the import of food-grains from them means an additional complication involving a fresh burden on India's financial resources.

Importation from distant countries

Causes of worsened food position

When we look for an explanation of this fundamental change in our food position—a change from virtual self-sufficiency to substantial dependence on imports, two facts become noticeable. In the first place, our population has grown faster than our food-supply and, secondly, the political division of the country has left us with a relatively larger population than food-growing areas. The serious deterioration in our wheat position is due largely, to our loss to Pakistan of West Punjab and Sind with their substantial surplus production of this important crop.

First measure of control

The first measure adopted in 1942 to meet the difficulty was food control without rationing. This failed, but the next change in the food policy based upon rationing and controlled distribution did not come about before fifteen lakhs of innocent lives had been sacrificed in the great Bengal Famine of 1943. Controlled distribution of food was started in selected areas towards the end of 1943 and by the early part of the next year it was spread to different parts of the country. Statutory rationing on the individual basis was, however, limited to big urban or industrial areas, such as Calcutta, Bombay, Madras, Kanpur and New Delhi. In the rest of the country there was controlled distribution and the Government maintained inter-regional equity of supply. The scope of statutory rationing had, however, to be gradually extended so as to cover a large part of the population.

Rationing

Recent developments

Food control in India has achieved a moderate degree of success, but it has not been possible to eradicate the black-marketing in food. Food control has come in for special criticism on a variety of grounds, such as the insufficiency of the amount of the ration, the poor quality of the rationed foodstuffs, and high prices. The Food-Grains Investigation Committee, appointed by the Government of India in August, 1949, found that most of the complaints made about the administration of the food control system were justified. The Committee made a number of recommendations to bring about an improvement in the position. It strongly urged that the quantity of the ration should be adequate. On the question of the continuance of the food control system the Committee expressed the view that the country was not yet ripe for complete decontrol of food, but having regard to the goal of self-sufficiency, the country should prepare for the abandonment of control and return to normalcy. Statutory rationing should be continued in the transitional period in vulnerable sectors, such as industrial areas, highly deficit pockets and large cities.

Real solution

Temporary expedient

Increased production within the borders of the country is the real solution of the food problem. But importation and control are short-term measures which are necessary so long as there is food deficit. As food is the first necessary of life, no risk ought to be taken in regard to the adequate supply and distribution of it. The decision to extend the period of food control till the 31st March, 1951, was expedient, but further extension of time has been necessitated by the circumstances still prevailing in the country.

Further price increase by Government of India

It is a matter of great regret that the Government of India should, at a time when food prices are soaring high, think it right to raise the prices of imported foodgrains on the 'ground that the cost of importation from foreign countries has increased.'[1]

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[1] "The total imports of foodgrains during 1950 amounted to 2.125 million tons valued at Rs. 802 million. The import programme for 1951 envisages an import of 4.0 million tons estimated to cost about Rs. 1,600 million." *Indian Trade Bulletin, Economic Policy Number*, June, 1951.

CHAPTER XV

WATER-POWER DEVELOPMENT

Need for irrigation

We have already seen that, in many parts of India, the normal annual rainfall is in defect ; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the seasons or the requirements of crops. In all these parts, irrigation is necessary for the growth of crops.

Antiquity of irrigation system in India

Irrigation has been practised in India from very early times. The remains of the canals constructed by Hindu kings as well as by Muslim rulers are still to be found in many parts of the country. During the early years of British rule, irrigation was neglected and it was not until the middle of the last century that the matter engaged the serious attention of the Government.

Inundation and perennial canals

Besides tank and well irrigation, the simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals. But more important than these are perennial canals. The chief canal systems are the Sirhind Canal in the Punjab, the Ganges and Jamuna Canals in Uttar Pradesh and the Sone Canal in Bihar. In West Bengal the Midnapur Canal is the only noteworthy canal.

Storage works in Bombay and Madras

The demand for storage works is the greatest in Bombay and Madras, where most of the rivers have short courses and the rain which frequently falls in heavy but brief storms passes away rapidly. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India.

Advantages

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the out-turn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively small cost. The landowners derive benefit from the works by the increased rentals they obtain. The advantages to the country as a whole are that it protects large areas from the effects of famine and increases the total food-supply of the people. Further, cheap electricity is being secured from water-power available in course of the manipulation of irrigation water. Lastly, it is beneficial to the Government as it brings increased revenue into its coffers.

Multi-purpose projects

For the maximum utilization of water-power, comprehensive multi-purpose projects are needed, which should provide for irrigation, navigation, flood control, hydro-electric power, pisciculture and recreational facilities. After the attainment of Independence, the attention of the Central and State (Provincial) Governments was focussed in this direction and a Central Water-Power, Irrigation and Navigation Commission was created to collect all the data required for river planning. This body approved of several projects, of which the most important are: the Damodar Valley Project in West Bengal and Bihar, the Hirakud Project in Orissa and the Kosi Dam Project in Nepal and Bihar.

The Damodar Valley Project is the most outstanding of these projects. It envisages the construction of seven dams and a barrage for the regulation of stream flow. The barrage will also divert regulated flow into irrigation canals. The project will thus not only control devastating floods, but will also irrigate a million acres of land, from which an additional output of fifty lakh maunds of rice per annum will be obtained. Electric-power-generating stations have been planned at all the dams and a large amount of electrical energy will be produced. With the elimination of floods and the supply of cheap power, new industries will grow up in this valley which is rich in minerals. Numerous other benefits will also accrue from this project. An eighty-mile long navigation channel has been proposed to be constructed, which will carry goods and passengers between Calcutta and the coal-fields at economical rates. The reservoir, the river itself and the irrigation canals will be eminently suitable for fish culture. The total cost of the project has been finally estimated at Rs. 110 crores. The construction of two of the dams and the thermal station at Bokaro are being proceeded with.

The Hirakud Project is estimated to cost Rs. 47.81 crores. It will provide effective flood control, supply flow and lift irrigation to about one million acres of land and generate a large quantity of hydro-electric power. It will also make the Mahanadi river navigable from the sea to Sambalpur. The project has made considerable progress. The Kosi Dam Project, which is now estimated to cost about Rs. 177 crores, envisages complete flood control, irrigation of 384.5 million acres, vast power production and navigation on the rivers and canals. Though the preliminary investigations have been finished, further enquiries, which have been found necessary, are still continuing.[1]

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[1] *Multi-Purpose Projects in India—Damodar Valley*, issued by the Government of India.

The National Planning Commission submitted an *interim* Report in 1950,[1] in which it estimated that India's 257 irrigation schemes were likely to cost about Rs. 1,900 crores and would be completed in the next 15 years. No less than 135 schemes, estimated to cost Rs. 590 crores, were already under construction in different parts of the country in 1950. Twelve of them could be called major projects, costing over Rs. 10 crores each. There were 24 medium-size projects costing between Rs. 2 crores and Rs. 10 crores each, and 99 smaller schemes whose total cost would be about Rs. 48 crores.

Investigations are being made on various other projects, such as Ganga Barrage in West Bengal, the Sabarmati Project in Bombay and Mahanadi and Jank Project in Madhya Pradesh.

Irrigation is the most essential need of agriculture, while one of the basic conditions of successful industrial development is the supply of cheap motive power. The supply of coal and oil is limited in India, but her water-power resources are very extensive. So far only an insignificant portion of the water-power available has been tapped in India. If these resources of the country are fully developed they will go a long way towards the solution of the most important problems of agriculture and industry.

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[1] *Indian Trade Bulletin, Economic Policy Number*, June, 1951.

CHAPTER XVI

RURAL INDEBTEDNESS

1. THE BURDEN OF DEBT

Debt burden

INVESTIGATIONS carried on by some responsible persons disclose the existence of appalling indebtedness under which the peasantry of the country groan. The Central Banking Enquiry Committee in 1931 roughly estimated the total indebtedness at Rs. 900 crores. There is no doubt that this figure considerably increased during the next decade.

The rigour of the problem was, however, greatly eased by the impact of World War II. The war-time rise of agrarian prices raised rural economy from the depths of the depression, and this prosperity enabled the reduction of a significant part of the aggregate rural debt.

Thriftlessness

Dependence on the money-lender

To what extent rural indebtedness is due to thriftlessness or extravagance on the part of peasants cannot be definitely asserted, but there is no denying the fact that there is an inherent defect in the credit organisation of the country. The dependence upon the village money-lenders and the high rates of interest charged by them are sapping the foundations of the rural prosperity of the country.

2. DEBT LEGISLATION

Object of recent legislation

There has been quite a crop of legislation during the last three or four decades in all the provinces with a view to (*a*) controlling money-lending, (*b*) scaling down old debts and (*c*) liquidating unrealisable debts. With a view to controlling money-lenders and their operations, provision has been made for the registration or licensing of money-lenders, regulation of accounts, and the fixation of maximum rates of interest. Though details have varied from province to province, most provinces have required money-lenders to maintian regular account-books and to furnish periodic statements of accounts to every debtor. Maximum rates of interest have also been laid down for different classes of loans.

Debt conciliation

A more radical remedy has been the establishment of Debt Conciliation Boards, seeking to scale down debts on a voluntary basis. Such Boards have been working in Madhya Pradesh, East Punjab, Assam, West Bengal and Madras, and their duty has been to institute enquiries in the case of every debtor or creditor applying for relief and equitably adjust the debts. The Boards enjoy certain powers of civil courts. More recently, however, a method of compulsory scaling down of debts, irrespective of any agreement with the creditors, has been adopted in some of the States. The effect of these measures of legislation has been described by two well-known experts in the following words: " In general, the element of compulsion has always proved to be a better alternative to amicable settlement."

The real remedy

The result of debt legislation has been a marked restriction of credit and, in the absence of the development of alternative sources of supply of credit, the agriculturists have been in great difficulty, specially in periods of financial strain. Without the aid of a bold and constructive policy of agricultural regeneration, the negative character of debt legislation has done greater harm than good to the agriculturists. The real remedy can only come from an augmentation of the income of the agriculturist. Agriculture by itself is not sufficiently remunerative. The first essential thing is that agricultural operations will have to be substantially improved so as to yield larger returns. Secondly, occupations, subsidiary to agriculture, will have to be introduced, such as dairy-farming, kitchen-gardening, bee-keeping and cottage industries of various kinds so as to supplement the meagre incomes derived from agriculture.

3. THE CO-OPERATIVE MOVEMENT

Credit—an absolute necessity in India

It is a recognised fact that credit is an absolute necessity in all agricultural countries, particularly in India. Easy and cheap credit, however, has a great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy credit and at the same time eliminate the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of Raiffeisen and Schulze-Delitzsch proved the most successful. In 1892, the subject attracted the attention of the Government of India, and they appointed Frederick Nicholson to enquire into and report on the matter. His report was submitted in 1896.

Nicholson suggested the introduction of co-operative credit societies on the German model. The advantages possessed by

Advantages of village banks

village banks are: (*i*) absolute proximity to the borrower; (*ii*) their ability to create local confidence and draw in local capital; (*iii*) their exact knowledge of the clients and their influence over them as co-villagers; (*iv*) their ability to work cheaply—almost gratuitously—and thus to provide cheap credit; (*v*) retention of local capital and all profits thereon within the village; (*vi*) their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities; (*vii*) their capacity to act as village granaries; (*viii*) their ability to act as intermediaries between the State and the individual in agricultural or industrial development or in times of seasonal stress; (*ix*) their power of influencing borrowers towards the true use of credit; (*x*) their ability to prevent fraudulent default; (*xi*) their steady educative influence in matters of thrift, association and self-help; (*xii*) their tendency to develop high forms of individual capacity, public life and national character.

Co-operative Societies Acts, 1904 and 1912

Limited and unlimited Liability Societies

When the Government of India became fully convinced of the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904. This Act divided the societies into (1) Central, (2) Urban and (3) Rural. The Act of 1912, however, substituted for the distinction between urban and rural societies the division of societies into (1) those with limited liability and (2) those with unlimited liability. It also authorised the registration of co-operative associations for purposes other than credit.

Management

The management of these societies should be democratic. Members themselves should appoint from their own body a Committee to do the work for one year. The members of the Managing Committee receive no remuneration for their work. No member has usually more than one vote; but when the liability is limited, a member may have more votes than one, if provided by the bye-law.

Audit and supervision

The accounts of every society are audited by, or by order of, the Registrar who at all times has access to all the books, accounts, papers, etc.

Investment of funds

The funds of the societies may be invested in the Government Savings Banks or in any of the institutions prescribed by the Indian Trusts Act, in any bank, or with a person approved by the Registrar or in any other way permitted by the bye-law.

Central Banks

The co-operative societies in India were from the very beginning handicapped for lack of funds. Central Banks were, therefore, established under the Act of 1912 to finance the societies.

Financing of societies

The Central Banks have now been linked in almost every province with a Provincial Co-operative Bank located in the chief money-market centres. Thus, the funds of the commercial centres may percolate to the villages to finance the vital industry of the country through this organisation.

Progress of co-operative credit

The potentialities of the co-operative movement have been demonstrated by the steady, though slow, growth of societies among the rural population of India.

Short-comings

It is evident that the development of the co-operative movement has so far been considerable. But the rate of progress has been exceedingly slow. The movement may be said to have only touched the fringe of the problem. In order to make it quite successful, funds must be forthcoming on a much larger scale. Besides, there are certain defects in its financial system, the most serious of which are an absence of elasticity, irregularity in collection, accumulation of overdues, and a defective system of audit. While the difficulty of providing adequate fluid resources is great, the drawback due to the lack of proper education of members in the ideals and working of the co-operative movement is no less a hindrance.

Another drawback of the existing system of co-operative finance is the inadequate provision so far made for long-term credit. If agriculture is to be a profitable industry, the results of science and education must be applied to it. For this purpose and for the purpose of lifting the heavy loads of debt from the shoulders of the agriculturists, loans ought to be made available to them for fairly long terms.

Land Mortgage Banks

The existing resources of co-operative organisations are insufficient for the granting of long-term loans on an extensive scale. Nor is the nature of funds at their disposal such as to allow of investments for long periods. With a view to meeting these difficulties, special institutions, known as Land Mortgage Banks, have been established in most of the States, notably in Madras, Bombay, East Punjab, Assam and West Bengal. These Banks are financed by the issue of long-term debentures (bonds), the principal and interest of which are being guaranteed by Provincial Governments. Long-term deposits and share capital are other sources from which funds are secured by these Banks. On the security of land, loans are being granted for periods ranging from 5 to 30 years, the amount of loan usually not exceeding half the estimated value of the land. Loans are advanced mainly to redeem old debts, to assist in the purchase of land, or to finance the purchase of implements for improvement of cultivation.

Non-credit society

The need for the extension of the functions of co-operative societies to the sphere of non-credit business is very great. Already certain States such as Madras, Bombay and Uttar Pradesh have made considerable progress in this direction by developing multi-purpose activities. The Agricultural Credit Organisation Committee of Bombay suggested that the normal policy should be to organise multi-purpose societies only, and to convert the existing village primaries into multi-purpose Societies preferably on the same liability. Such societies should satisfy the normal cultivation needs of their members as well as the supply of credit for agricultural needs. They should also serve as agencies for supply and sale, and as they develop their capacity, in course of time, should also act as consumers' societies.

Multi-purpose societies

All-India Co-operative Bank

It is held by some eminent persons that the formation of an All-India Co-operative Bank is desirable, which would be in a better position to co-ordinate the activities of all types of co-operative organisations and to attract large investments. They urge that the Provincial Co-operative Banks and Land Mortgage Banks should be affiliated to such a body. It would command large resources, and be able to balance the funds of co-operative organisations throughout the country, the surplus of one province being utilised to make good the deficiency of another.

Economic benefits

The co-operative movement has been productive of considerable good to the country. In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the co-operative societies instead of from the village money-lenders, are saving a large amount. Besides, with the progress of co-operation and with credit democratised, money that used to lie in hoards has been released and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturists, and old debts have been liquidated in many cases. Co-operation has placed within the reach of many cultivators cheap manures and implements, it has tried to help improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated. In Bombay, societies for the hire of cane-crushers, for the maintenance of oil engines for lifting water, have been established. Cultivation and sale of sugar-cane on a co-operative basis are being attempted in some of the States. In several States steps have recently been taken towards the development of insurance.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts

Intellectual and moral benefits

has led to a demand for literacy. The criterion for admission into these societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts has acted as a sort of check on expenditure for unproductive purposes. In some places, litigation has markedly decreased. In others, surplus funds have been used to start schools, to provide scholarships, to supply drinking water and to clean roads.

The recent position of the co-operative societies may be gathered from the following figures :

Position of Societies in 1947-48

In 1947-48, there were 85,260 agricultural societies with membership, 35 lakhs ; owned capital, Rs. 11.35 crores ; working capital, 23.87 crores ; deposits, Rs. 3.04 crores ; borrowings, Rs. 9.47 crores ; fresh advances, Rs. 10.45 crores ; recoveries, Rs. 8.15 crores ; outstandings, Rs. 16.01 crores : overdues, Rs. 3.93 crores. It is worthy of note that owned capital formed 47.6 per cent. of the capital but deposits formed a comparatively small part of the total working capital.

Besides, there were 20,780 non-credit societies. Of the number of non-agricultural societies (22,370), 6,510 were credit societies and 15,860 were non-credit societies.

Drawbacks

Suggestion

The co-operative movement ought essentially to be a moral and social movement. But the fact that, after the lapse of nearly half a century, a rigid Governmental control has to be maintained over its working shows that the fundamental aspects of the question have been sadly neglected. Co-operation, to be successful, must be founded on self-help, self-reliance and mutual trust. But it does not seem that sufficient stress has so far been laid on the development of these qualities. So long as the foundations remain weak, a strong and massive super-structure can never be erected. What is, therefore, immediately needed is to take steps to imbue the minds and hearts of the rural population with the true spirit and ideal of co-operation.

CHAPTER XVII

THE POPULATION PROBLEM

Optimum population

ATTEMPTS have been made by writers on Indian economic problems at different times to discover whether India should be regarded as over-populated or not. More recently some economists have sought to find out the exact optimum for India, that is to say, the exact number of persons that will secure for the Indians the maximum average return from the available natural resources and productive organisation.

Increase of population and poverty

In course of the decade 1941-51, the population of India, as we have already seen, has considerably increased. It may seem from this fact that there is taking place a great increase in the population of the country. Some are of opinion that the pressure of population is one of the chief causes of the extreme poverty of the people, while others direct attention to the rich untapped mineral resources of India, and conclude that our country ought to be able to maintain an even larger population. It should be remembered that birth-rate in India stands comparison with that in the United Kingdom, Canada and the United States.

Factors effecting growth of population

The Census Report of 1921 pointed out some peculiar features of the Indian social system leading to important effects on the growth of population. Among these, the practical universality of marriage may be mentioned as an important factor leading to a generally high birth-rate. On the other hand, poverty, the insanitary conditions of living, the low standard of life, all lead to an inordinately high death-rate. Emigration is an almost negligible factor.

Is India over-populated ?

The vital statistics of India give all the indications of an excessive population in relation to the total amount of wealth produced. The very great pressure on land is the most unsatisfactory feature of the situation. The very small percentage of people depending on trades, commerce and industry is another undesirable aspect of the question. When with all this is combined the fact that an appalling amount of poverty exists in the land, some people are inclined to consider that the population in India is more than what it ought to be. It has, however, to be remembered that the economic organisation at present prevailing in India pays little regard to consumption and the maximum utilisation of man-power and it is probable that an improvement of the productive organisation will, by tapping the enormous potentialities of the country, make it possible for the present population to produce a much larger amount of wealth than is produced now.

Solution of the problem

The solutions suggested to the problem of population in India must be of a practical character. The rate of birth can fall perceptibly only when the people have become educated enough to be fully alive to their own responsibilities. Carr-Saunders suggests that " family limitation " is the only way of escape; but in a country where the percentage of literacy is below 15, it is too much to expect that family limitation will play any considerable part in relieving the situation.

It is possible to approach the problem from a more rational stand-point. The problem of population, as has already been emphasised, is one of efficient production and equitable distribution. An increase of productive efficiency and wealth will solve the problem readily. Improvement of agriculture, development of subsidiary occupations and other similar steps will relieve the pressure on the land. Industries, both cottage and large-scale, trade, commerce, banking, transport, insurance and shipping ought to be developed so that they may absorb the surplus numbers released from agriculture. Educational and social reforms, together with a thorough reorganisation of the productive structure, will certainly be successful in bringing into being a better state of affairs. Wise statesmanship can convert India's vast population from a source of weakness to a source of strength.

CHAPTER XVIII

INDUSTRIAL LABOUR

ONE of the most important problems of the present-day industrial system is that of the relationship between the employers and the labourers. Public opinion in recent years has been insistent upon better conditions of employment for labourers and the labourers themselves have become conscious of their own needs.

Peculiarities of labour-supply

There are some peculiar characteristics of the labour-supply in India. The region, comprising Bihar, Chota Nagpur, the eastern districts of Madhya Pradesh, some of the northern parts of Madras and a few of the districts of Uttar Pradesh constitutes the largest and the most important source of labour-supply in India. In West Bengal, local labour for the mills has always been scarce, and in the tea gardens of Assam, a large part of the labour-supply comes even now from Bihar and Uttar Pradesh. Secondly, the permanent labour population is as yet small. Labourers are generally immigrants from villages, always looking forward to the day when they would return again to their homes.

Inefficiency of Indian labourers

The labourers in the Indian factories are not generally as efficient as they ought to be. This is due to many reasons. They have often to work under inefficient leadership and with out-of-date instruments and appliances. The enervating climate of the country and the weak physique of the labourer are also contributory factors. The standard of living is very low. The hours of work were rather long in the past but they have now been shortened. The dwelling houses of the labourers are exceedingly congested and insanitary. All these factors, coupled with want of education and technical training, lack of discipline, and the large extent of indebtedness, have contributed towards the inefficiency of the labourers in our country.

1. LABOUR LEGISLATION BEFORE WORLD WAR II

Labour welfare schemes

Labour welfare schemes play a very important part in every country in which attempts are made to reconcile the conflicting interests of the labourers and the employers. These keep the labourers satisfied and well-disposed towards the employers and thus help to obviate strikes. They also help to raise the standard of living of the workers, which, in its turn, tends to increase their efficiency.

Hours of work

One of the most important problems of the employment of labour is that of hours of work. On the insistence of the Lancashire textile interests the Government of India passed the first Factory Act in 1881, prohibiting the employment of children below 7 in any factory. This Act also laid down that young persons between the ages of 7 and 12 must not be made to work in any factory for more than 9 hours a day and that they must be given one hour's daily rest and four holidays every month. Since that time a progressive reduction in the hours of work for labourers has taken place. This Act also reduced the working hours for women and placed restrictions on the employment of women and children at night.

This Factories Act was amended in 1922 and again in 1934. Among the other measures taken to benefit labourers, the two most important were the Workmen's Compensation Act of 1923 (amended in 1933) and the Payment of Wages Act, 1934.

Other measures

The Workmen's Compensation Act of 1923 provided for compensating the labourers or their dependants in case of death or disablement arising from any cause connected with their work. In 1933 scales of compensation were raised. The Payment of Wages Act of 1936 compelled the employers to pay wages regularly. Legislative enactments and rules were specially made for regulating the employment of labourers in mines. Under the Indian Mines (Amendment) Act, 1935, children under 15 are excluded from employment. Rules also were made for excluding women from underground work by a gradual process.

Labour disputes

During the years immediately following the First World War, there ensued a series of strikes and other sorts of labour trouble. The main reason for this outbreak was to be found in the high prices which were not offset by proportionate rises in wage rate. In many cases, strikes occurred on account of the legitimate grievances of labourers in respect of conditions of work and terms of employment. But some strikes took place owing to unreasonable demand of labourers or political influences.

Trade Disputes Act, 1929

There were several ways in which labour disputes can be settled, *e.g.*, mediation by some eminent outsider, conciliation and arbitration. The Trade Disputes Act of 1929 empowered the Government to appoint a Court of Enquiry or a Board of Conciliation.

Trade Unions Act, 1926

The Trade Unions Act of 1926 gave recognition to organisations of labourers working on proper lines.

2. POST-WAR LABOUR LEGISLATION

Factories Act, 1948

A comprehensive Act amending and consolidating the law relating to labour in Indian factories was passed by the Indian Legislature in 1948. This is the Factories Act which extends to all the States and acceding States. Its main provisions are : (1) No adult worker shall be allowed to work in a factory for more than 48 hours in any week and for more than 9 hours on any day ; (2) every factory having 500 or more workers shall employ such number of welfare officers as may be prescribed ; (3) the State Government has been authorised to employ inspectors who will have the power to make examination of the factory premises, plant and machinery and engage testifying surgeons who shall carry out the examination and testification of young persons under the Act and of persons engaged in dangerous occupations or professions ; (4) no women shall be employed in any factory except between 7 a.m. and 5 p.m. ; (5) no child below the age of 14 shall bea llowed to work in any factory ; (6) no non-adult worker who has not completed his fourteenth year shall be allowed to work in a factory without a certificate of fitness from the testifying surgeon ; (7) no child shall be employed or permitted to work in any factory for more than four and half hours any day and between the hours of 7 p.m. and 5 a.m. Besides the above features the Act included elaborate provisions relating to health, welfare and safety measures.

Minimum Wages Act, 1948

The Minimum Wages Act of 1948 occupies an important place among the labour measures passed by the Indian Parliament in 1948. Its object is to fix minimum wages payable to workers in a number of employments, particularly those where opportunities for exploitation are the greatest.

State Insurance Act, 1948

The Government of India realised the necessity for social insurance to guarantee an individual against contingencies arising out of unemployment, sickness and accidental disablement and old age and passed the Employees' State Insurance Act in 1948 to provide for certain benefits to employees in case of sickness, maternity and employment injury. Several other Bills, including the Industrial Relations Bill and the Fair Wages Bill, are now pending before Parliament.

Profit-sharing

The question of profit-sharing was considered by a Committee, the majority of which recommended that an experiment be made in six well-established industries. Considerable improvements in the conditions of employment of labourers have taken place. It is essential that in future, in every piece of labour legislation, the welfare of the workers as well as the general interests of the country should receive due consideration.

CHAPTER XIX

TRANSPORT

1. RAILWAYS

UNTIL the time of Lord Dalhousie the construction of railways in India was neglected. After the Sepoy Mutiny the strategic importance of railways was fully realised, and railway construction proceeded at a rapid pace.

Objects of railways, strategic and administrative

Economic effects: Equalisation of population

Equalisation of prices

Mitigation of the horrors of famine

Impetus to activity

Economic, social and political effects

Though the primary objects of the construction of railways were strategic and administrative, the economic effect has been immense. Cheap, easy and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour only is needed to make the soil yield bountiful harvests. There they can command higher rate of remuneration. The railways have helped to equalise to a large extent prices in the different parts of the country. The whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Generally, famines affect particular tracts, and it often happens that when one area is suffering, another has an abundant harvest. Now, the railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They thus greatly help in mitigating the sufferings of the starving population. The influence of railways on the economic, social and moral life of the people has also been considerable. Their political effects are seen in the establishment of a system of a centralised administration and in the growth of a national feeling in the country.

Indirect benefits

The purchase of rails and other railway materials in India has given a considerable stimulus to the iron, steel and timber industries. Besides, in normal years the Indian Government expects to realise a considerable income from the railway surplus.

Disadvantages

On the other hand, by promoting the importation of foreign goods they hastened the decay of indigenous industries. Besides, the obstruction caused to natural drainage by high-level rail-roads and the formation of stagnant pools on both sides of the railway lines have most prejudicially affected the health of the people.

When the first proposals for the construction of railways were mooted it was agreed that railways should be constructed by Companies incorporated in England for the purpose. But the early Companies were hesitating, as they were under an apprehension that the poverty of the country would not make such a venture profitable. They, therefore, insisted on a guarantee by the East India Company of a specified return. The system which was introduced for the purpose of railway construction in India is known as the Guarantee System. The construction of railways under the system, however, was by no means economical. The relations between the Companies and the Government were not always harmonious and the loss to the Government was enormous. Therefore, after 1869, the Government itself undertook the construction of railways as it was realised that the credit of the Government would enable it to borrow the necessary capital on easier terms than a Company.

Ownership and control

Relations with the Government

The railways in India were thus managed under diverse conditions, and they might be classified into three broad classes : (1) State lines worked by the State ; (2) State lines worked by a Company ; (3) Company lines worked by a Company.

Acworth Committee Recommendation *re* State management

In 1921, an expert Railway Committee under the chairmanship of Sir William Acworth made important recommendations in regard to the future railway policy of India. The majority recommended the policy of State management for all railways and suggested that the whole of the capital for the future development of Indian railways should be raised direct by the State and loans should be floated both in England and in India.

Separation of Railway from General Budget

A most important and far-reaching recommendation of the Committee was the separation of the railway budget from the general budget.

The railway budget was separated from the general budget in 1924. After the separation, the contributions from the railways to the general revenues varied between 5½ crores and 6¾ crores annually.

World War II

During World War II, the railways were able to meet the extremely heavy demands of the Army and the war-industries only by reducing their services to the civilian population. For goods traffic an elaborate system of allocation of the priorities was introduced. Thus trade and industry as well as the civilian population suffered considerable hardship.

Partition affected the railway system adversely. The total length of railways in India at present is about 35,000 miles. All the railways are now Government-owned and Government-managed.

The War and Partition had disorganised the railway system to such an extent that to restore normalcy was not an easy task. Orders for a large number of locomotives were placed in the U. S. A., Canada and Britain, and to make India self-sufficient with regard to the supply of locomotives, the Government decided to establish a locomotive manufacturing industry at Chittaranjan in West Bengal. The Tatas have also started the manufacture of locomotives. The output of these two works will be sufficient to meet the entire demand of railways in India.

Chittaranjan and Tata

Railway rates

During British rule, railway rates were adjusted to the needs of the foreign trade of the country and this often prejudicially affected the interests of Indian industries. After the attainment of freedom, it was found necessary to revise the railway rates and revised railway rates came into effect from the 1st October, 1949. The Fiscal Commission think that the railway authorities should further examine the question of introducing changes so as to assist in the local and regional processing of agricultural and mineral produce and in the decentralisation of industries.

Fiscal Commission's suggestion

2. RAILWAY CONTRIBUTIONS TO THE CENTRAL REVENUES

Railway contribution 1924

Convention of 1949

The railway contribution, as adopted in 1924, was later found unsatisfactory. The Constituent Assembly, therefore, adopted a new Convention in December, 1949, which altered the relationship between the general finance and railway finance. Under the new Convention, general finance has been guaranteed by the railways a fixed dividend of 4 per cent. on the share holding or the capital loaned for a period of 5 years. A net railway contribution of Rs. 6.37 crores was provided in the budget estimate for 1950-51.

3. ROAD-RAIL COMPETITION AND CO-ORDINATION

A problem of a serious nature arose some time ago in the shape of a strong competition between road and rail transport. The total mileage of roads in India is over 30,000.[1]

Total mileage

Loss to Railways

More than 48 per cent. of the railway mileage of India has a metalled roadway running parallel to it. In 1937, the Wedgwood Committee estimated the loss due to road-rail competition at Rs. 450 lakhs a year and this loss was tending continuously to increase because road mileage was increasing, the roads were becoming better and the organisation of motor transport was steadily improving. On the other hand, the motor services were in many cases bringing increased traffic to the railways by connecting the railway stations with distant villages.

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[1] In 1928, a Central Road Fund was created. Up to the end of 1934-35 the total revenue of the Road Fund amounted to 641 lakhs of rupees of which more than 500 lakhs were actually distributed among the provinces for road development.

Co-ordination of transport

Co-ordination between road and rail transport is desirable, but it is not easy to bring it about in practice. One of the purposes of the Motor Vehicles Act of 1938 was to secure this object.

4. POST-WAR ROAD TRANSPORT

Road Transport Act, 1948

During World War II, many strategic roads were constructed. Under the New Constitution, national highways have been included in the Union List. In order to enable the State Governments to establish statutory transport systems within the States, the Central Government in 1948 passed the Road Transport Corporation Act. Road Boards were also set up in Bombay, Madras and West Bengal.

The establishment of automobile manufacturing industry will also facilitate the development of road transport. Already several works have been established, of which two are important : one at Matunga near Bombay and the other at Konnagar near Calcutta. The Government has also granted protection to this industry in anticipation of actual production.

5. SHIPPING

In ancient times, not only was an active trade carried on along the extensive seaboard of the country, but Indian vessels carried cargoes to Persia, Arabia and parts of Eastern Africa on the West and to Malaya and the Indian Archipelago on the East. But during British rule, on account of protection being given to British shipping, Indian shipping disappeared. Besides, as steel-ships were built in Britain, wooden ship-building ceased in India.

Indian-owned shipping concerns have not developed quickly on account of the intensive and unfair competition of the established foreign concerns. A very large proportion of the export and import trade of the country is still in the hands of the foreign merchants, and foreign domination in shipping is the result of the preferential treatment given to foreign firms by their national steamship lines.

No elaborate discussion is needed to stress the necessity of developing a mercantile marine, owned and operated by Indians.

Besides being an important business itself, it can remove the evil effects of foreign monopolies, provide a new career for enterprising young men, and serve as a potential auxiliary to national defence. The Government of India have now begun to take steps to encourage Indian shipping generally. The ship-building yard at Visakhapatnam, which was established during the War, has begun to build ships. Marine Engineering Colleges have been established in Bombay and Calcutta for the training of certified engineers.

6. INLAND WATER TRANSPORT

In pre-railway days, inland navigation was highly developed, but with the construction of railways the inland waterways were allowed to decay. Water transport is the cheapest form of transport for heavy goods. Its development is essential in the interests of the country, but this can be brought about only by the combined activities of the Central and State Governments.

7. AVIATION

The importance of developing air transport was clearly shown during the War. For the defence of the country as well as for the quick transport of men and materials in peace and war time, air transport had to be developed. Air transport may also be used to relieve the distress caused by national calamities like earthquake or flood. Immediately after the commencement of World War II, there was considerable expansion of air transport. Civil aviation has made a rapid progress during the last five years.

With effect from 1949, the Government has been giving financial assistance to Indian air transport companies and flying clubs. Progress has also been made in the training of flying and technical personnel. Civil aviation training centres have been opened at Allahabad and Saharanpur. Flying clubs, which also occupy an important place in the training scheme, are given financial aid. An aircraft manufacturing industry has been started at Bangalore.

CHAPTER XX

INDUSTRIAL ORGANISATION AND FINANCE

1. TYPES OF INDUSTRIAL ORGANISATION

Owner-manager system, Partnership, Joint-Stock Companies

THE form of industrial organisation of a country depends upon its social structure, its economic needs and conditions, and its political ideas and ideals. India is now in a stage of transition and we find here various types and forms of industrial organisation. In earlier days the owner of a concern was himself its worker, manager and capitalist. Although this type still continues to some extent in many parts of the country, the complexity of modern business has led to differentiation of functions. The two chief forms of industrial organisation prevalent at the present day are partnerships and joint-stock companies, the latter being sub-divided into private limited companies and public limited companies. There are, besides, some concerns which are owned by the Government but worked by corporations, *e.g.*, the Damodar Valley Corporation, and a few others which are both owned and managed by the Government, *e.g.*, the railways, posts and telegraphs, and the Reserve Bank of India. Each of these types has its advantages and disadvantages, the choice depending on the conditions and circumstances.

2. THE MANAGING AGENCY SYSTEM

The Managing Agency system

The pioneering and management of large-scale industry in India present certain distinct features which differ from company promotion and management in other countries. Industrial enterprises in this country have been mostly promoted and controlled by a system which is peculiar to India. This is known as the Managing Agency system. The more important jute mills, cotton mills, tea gardens, sugar factories, electric supply companies and light railways were started and are still managed by managing agents. There are many industries which would never have been established in the country but for the initiative and the risk taken by the managing agents. Without the assistance of the Tatas, the iron and steel industry and the hydro-electric industry would not have been developed as they have been.

The system was first adopted in European concerns. Among the representatives of European firms trading in India there were some persons of outstanding ability and enterprise who began to utilise the experience gained in their own business for promoting other kinds of industrial and commercial activity. When these were successfully started, the organisers managed the new concerns on behalf of the share-holders and became known as the Managing Agents. The system was subsequently adopted for promoting and organising Indian concerns.

Origin and growth

Organisation of firms

Managing agency firms are organised as individual proprietorships, private partnerships, private limited companies, or public limited companies. The second and third forms appear to be the most common, and the more important houses are organised under either of these two forms.

Types of managing agency

Broadly speaking, there are three main types of managing agency firms in India : (1) European managing agency firms in Calcutta, (2) Indian managing agency firms in Bombay and (3) Indian managing agency firms in Ahmedabad.

Functions of managing agents

The agency firms are formed by a group of individuals with strong financial resources and considerable business enterprise. The managing agents perform services in India which Issue Houses are doing in other countries. They promote joint-stock companies, employ their own funds or the funds of their friends and relatives for financing their requirements, and manage their business. Thus, they are the promoters, financiers and managers of the businesses they have established. They also act as sale or purchase agents for the concerns under their control. The remuneration which they charge for the services they render takes the form of a commission. The agents are able to supplement their usual remuneration by earning substantial commissions in respect of various subsidiary services rendered by them.

Defects of the system

While recognising that the managing agency system has played a very important part in the industrial development of the country, it must be admitted that the system has given rise to some grave defects. The hereditary and practically irremovable character of managing agencies, the system of remuneration on a sales basis, the practice of rendering subsidiary services, such as the purchase of machinery and stores on behalf of their client-concerns, the inter-investing of mill funds, the control exercised over the Directors so as to turn them into mere puppets are some of the main grounds on which the system has been severely criticised. The agents have also been accused of numerous malpractices. Not infrequently, charges of dishonesty, inefficiency and uneconomical management have been brought against them. Thus the abuse of the system has led to the general belief that it has outlived its usefulness.

Demand for statutory control—the passage of the Indian Companies Amendment Act

In these circumstances, the Indian Companies Act was amended in 1936 so as to bring the managing agents for the first time under legal control. The aim of this amended Act was to remove some of the gravest defects of this system. The tenure of the managing agents was fixed at 20 years.

Further reforms needed

Criticisms of the new proposals of reforms

But the system has not yet been reformed to the desirable extent. Representations have been made that these controlling measures have not produced the desired effect. The Government of India have come to the conclusion that the restrictive measures of the 1936 Act should be further tightened up. The industrialists suggest that the emphasis must fall on the proper administration of the law, and not on changing it. In any case, the managing agents must re-orientate some of their activities so as to justify the grip they possess over Indian economic life.

3. INDUSTRIAL FINANCE

Reports of the Industrial Commission, External Capital Committee and Central Banking Enquiry Committee

The problem of industrial finance in India has engaged considerable attention for some time past. The question received full attention from the Industrial Commission of 1918-19, the External Capital Committee of 1929 and the Central Banking Enquiry Committee of 1929.

Two kinds of finance needed

Broadly speaking, organised industry requires two kinds of finance, namely, fixed (or block) capital and floating (or working) capital. The former includes not only the initial capital for the purchase of land, the erection of factory buildings and the installation of plant and machinery, but also the funds required for extension, replacement and reorganisation. The floating or working capital is required for the payment of wages, the purchase of raw materials and stores, marketing charges, and other current expenses. In India, industries suffer not only from a lack of long-term financial facilities but also from the insufficiency of working capital and the heavy cost of obtaining it.

Current finance

Indian investors are proverbially nervous about industrial shares and debentures. India's banking system is ill-adapted for the task of long-term industrial financing. It often happens that the capital raised by the issue of shares is soon spent in the erection of factory buildings and the installation of the necessary plant and machinery, very little being left for meeting the current expenses. Most industrial concerns, therefore, have to seek finance from outside sources. But the difficulty of securing this finance is great, and the cost of obtaining it is enormous. Banks do not lend against the hypothecation of liquid assets.

Public deposits are the most important source from which the mills in Bombay and Ahmedabad obtain their current finance. But these are fair-weather friends and are likely to prove a source of great embarrassment in times of crisis when the public make sudden and heavy withdrawals. In recent years, this source of the supply of current finance has considerably dried up.

Need of Industrial Credit Corporation

The necessity of setting up special institutions for solving the problem of industrial finance in India has been recognised for a long time past.

4. INDUSTRIAL FINANCE CORPORATIONS

Industrial Credit Syndicate of Bengal

The U. P. Industrial Corporation

Before World War II, only two Provincial Governments started special institutions for the financing of industries, namely, the Industrial Credit Syndicate of Bengal and the United Provinces Industrial Corporation. These were, however, extremely feeble efforts.

The Industrial Finance Corporation

In 1946, Sir Archibald Rowlands introduced a Bill for the establishment of an Industrial Finance Corporation in India. It was passed in 1948. The purpose of establishing the Corporation is to make more readily available to "industrial concerns" in India medium- and long-term credits particularly in cases where normal banking accommodation is inappropriate or recourse to capital issue methods is unpracticable.

The authorised capital of the Corporation was fixed at Rs. 10 crores, divided into 20,000 shares of Rs. 5,000 each, the paid-up capital being Rs. 5 crores in respect of 10,000 shares issued from the 9th to the 11th August, 1948. Of the capital issued in the first instance, the Central Government and the Reserve Bank were each to subscribe for 2,000 shares, scheduled banks for 2,500 shares, insurance companies, investment trusts and other financial institutions for 2,500 shares and co-operative banks for 1,000 shares. The Corporation was empowered to issue and sell bonds and debentures. The Corporation was further empowered to receive deposits repayable in not less than five years and not exceeding the amount of ten crores of rupees.

The general superintendence and direction of the affairs of the Corporation have been entrusted to a Board of twelve Directors, of whom four are nominated by the Central Government, and two by the Reserve Bank, and six are representatives of scheduled banks, insurance companies, investment trusts and other financial institutions and co-operative banks. The Board is to be guided by such instructions on questions of policy as may be given to it by the Central Government.

During the first two years of its working, the Industrial Finance Corporation has confined its financial assistance to loans and advances against the mortgage of tangible assets. The rates of interest have varied from 5 to 5½ per cent. The total amount sanctioned for various categories of industries was Rs. 3.42 crores during the first year and Rs. 3.77 crores during the second year of its operation. The industries assisted include textiles, machinery, chemicals, cement, electricals, engineering, ceramics, iron and steel, aluminium, sugar, etc.

State Finance Corporation

The Government of India in 1950 introduced in Parliament a State Finance Corporation Bill to enable the States to start Corporations in their own areas for giving assistance to medium-size and small industrial concerns.

Difficulty great

Main hindrances to capital formation

The difficulty of securing investable funds for financing industrial undertakings has become acute since the beginning of 1947. The main hindrances to capital formation are as follows : widespread misgivings about the policy of nationalisation existed, although under the Industrial Policy Statement of the Government on April 6, 1949, nationalisation was to be restricted and, under Article 31 of the Constitution, full compensation for acquiring industrial undertakings was to be paid. Another hindrance is the high level of taxation on the larger incomes, which is regarded as an important factor discouraging investment. The malpractices on the part of some managing agents constitute the third hindrance. Gambling in the Stock Exchanges is one of the causes hindering capital formation. Further, the control of capital issues by Government of India is considered to be prejudicial to the growth of capital.

5. FOREIGN CAPITAL

Big gap between savings and capital requirements

The Fiscal Commission examines the question at great length. After analysing India's savings and investments, the Commission comes to the conclusion that there is a big gap between India's domestic saving and her minimum capital requirements. This can only be filled by foreign capital. There is another reason why the country will need foreign capital in the immediate

Need for foreign capital

future. India's development plans will entail heavy expenditure on capital goods and equipment, much of which will have to be imported from abroad and paid for in foreign currency. There are, besides, other secondary advantages that India can derive from a judicious import of foreign capital. In so far as foreign capital is accompanied by technical knowledge, including industrial research facilities and the training of technicians, managers and administrators on modern methods, the financial arguments in favour of imports of foreign capital are further strengthened.

Policy enunciated in Government resolution

The Government policy regarding foreign capital was announced in the Government of India's Resolution of the 6th April, 1948. The Government thought that strict regulation of foreign capital was needed when India was a subject country, but, after the advent of Independence, the situation became quite different. In order to give foreign investors an assurance regarding their future position, the Prime Minister made the policy of the Government quite clear. He said that Government did not intend to place any restrictions or impose any conditions on existing foreign concerns which are not applicable to similar Indian enterprise and the existing facilities for remitting profits would be continued. If, however, he added, any foreign concerns be compulsorily acquired, the Government would provide reasonable facilities for the remittance of proceeds.

Prime Minister's statement, April, 1949

Response to appeal inadequate

The Prime Minister, during his visit to the United States and Britain in 1948 and 1949, tried to impress on foreign investors the desirability of investing their funds in enterprises in India. But so far very little foreign investment has taken place. An additional incentive to dollar investment in India is contained in the new and easier terms, announced in June, 1950, for the repatriation of foreign capital.

Additional incentive announced, June, 1950

Undue reliance on foreign capital harmful

But we must not place too much reliance on foreign capital. As the Fiscal Commission rightly observes, " while it should be the duty of State policy to create and maintain conditions favourable to the inflow of all such foreign capital as desires to come to India, it must concentrate on the development of the domestic sources. Foreign capital can, at the best, supplement the country's domestic resources." We should always be on our guard against foreign influence, economic or political, coming in the train of foreign capital, for such influence may undermine the basis of our freedom and ultimately become a menace to the preservation of the independence of our country.

CHAPTER XXI

BANKING AND CURRENCY PROBLEMS

1. THE RESERVE BANK OF INDIA

THE Reserve Bank of India was established in 1935 as a shareholders' bank, the original capital being Rs. 5 crores. It was managed by a Central Board of Directors, partly nominated by the Governor-General in Council and partly elected by the shareholders. There were also Local Boards in the different regions.

Demand for nationalisation

Ever since its inception, the demand for nationalisation of the Bank was very strong in the country, as it was felt that the Bank was losing its status as a public institution—its shares tending to be concentrated in the hands of a few shareholders and its policies being framed by a group of capitalists in their own interests. The Reserve Bank of India (Transfer to Public Ownership) Bill was passed by Parliament in September, 1948. Under its provisions, the Reserve Bank was nationalised. All shares in the capital of the Bank were transferred to the Central Government, for which full compensation was paid to the shareholders. All the members of the Central Board, including a Governor, two Deputy Governors and the Directors, are now appointed by the Central Government. The main object of nationalisation is to bring about a greater coordination of the monetary, economic and financial policies of the Government. The members of the Local Boards are also nominated by the Government of India.

Functions

The functions of the Reserve Bank of India may be classified under three heads, namely, as banker to the Government, as the currency authority of the country and as the bankers' bank. As banker to the Government, the Reserve Bank accepts moneys, makes payments on behalf of the Government and carries on their exchange remittance and other banking operations, including the management of the Public Debt and the issue of new loans. As currency authority, the Bank has a monopoly of note-issue. As bankers' bank or the 'central bank' of the country, the Reserve Bank is regulated by a number of provisions in the Act, and under these provisions, it extends assistance to various banking companies under certain conditions.

The Reserve Bank and Agricultural Finance

The Reserve Bank was authorised by the Act to create a special Agricultural Credit Department. Financial assistance in the form of loans and advances is provided by the Reserve Bank to Provincial Co-operative Banks and the Central Land Mortgage Banks and through them to Co-operative Central Banks and the Primary Land Mortgage Banks. The Reserve Bank does not think it practicable to lend to agriculturists direct or to advance large sums to co-operative banks or indigenous bankers for re-lending these to the cultivators as a matter of course. Nor does it think that it can take the place of the Government in this respect. The Reserve Bank considers that the co-operatve banks must stand on their own legs and obtain the normal finance from deposits and must not depend upon the Reserve Bank for their supplies of money. A number of conditions has been laid down for the grant of advances to Provincial Co-operative Banks, such as the right of inspection of the Banks by the Reserve Bank and the periodical furnishing by these Banks of financial statements.

During the three years of its existence, the Nationalised Reserve Bank has not been of much help to the smaller banks of the country; nor has it done anything substantial to assist the agriculturists. Its own working has not been satisfactory. If the Reserve Bank is to fulfil its objects, a change will be necessary in its personnel as well as its methods of work.

2. THE BANKING COMPANIES ACT, 1949

The Banking Companies Act, 1949

There had been for a long time past a popular demand for the control and regulation of banking companies in India and for this purpose the passing of a separate Banking Act has been considered desirable. Bills were introduced several times, but it was not until 1949 that a long-awaited legislative measure was placed on the Statute-book. The main features of the Banking Companies Act, 1949, are: (1) a new definition of "banking," (2) prescription of minimum capital structure for banking companies, (3) determination of the forms of business in which banking companies may engage, (4) prohibition of trading as a non-banking business, (5) licensing and inspection of banking companies by the Reserve Bank, (6) bringing the non-scheduled banks within the scope of the Reserve Bank's control and assistance.

The Reserve Bank has been endowed with very great powers. But these powers carry with them corresponding duties and responsibilities. The Bank has been empowered to extend its assistance to scheduled as well as non-scheduled banking companies in their hour of distress. Unfortunately, the Reserve Bank's activities in this direction have not so far been helpful. It is to be hoped that in future the Reserve Bank will be more alert and helpful, so that not only may a banking crisis be averted but every bank may receive timely assistance from it.

3. DEVALUATION

India had incurred large net deficits in her commercial transactions with dollar and other hard currency areas during 1946, 1947 and 1948. The deficits amounted to Rs. 4.8 crores, Rs. 85.8 crores and Rs. 49.6 crores respectively in these three years. Thus India was faced with a serious problem of adverse balances in international payments. Following the devaluation of sterling, the Government of India devalued the Indian rupee in terms of the American dollar in September, 1949, with a view to relieving India's problem of dollar shortage. The announcement of the decision of the U. K., without consulting India, left no other alternative for her, as the bulk of India's trade was carried on with the sterling area countries. It was, according to the Finance Minister, a 'defensive measure.' Both the Finance Minister and the Prime Minister assured the people that internal prices and cost of living would not rise as a result of devaluation.

Effect on exports

The Finance Minister contended that the maintenance of the rupee at the former exchange value in the face of the devaluation of the sterling would impair the competitive position of Indian exports. But while stressing the export side of the problem, he ignored the effect of India's devaluation on her imports of essential commodities, foodstuffs and capital goods.

Pakistan's no-devaluation policy

The whole situation became further complicated on account of Pakistan's refusal to devalue her rupee. Whatever exchange benefit could be obtained from devaluation was largely nullified by Pakistan's behaviour. The jute and cotton textile industries of India were severely affected as the cost of Pakistan's raw cotton and jute now increased in terms of the Indian rupee. There was a deadlock in trade between the two countries. India, which for a long time refused to recognise the foreign exchange-value of the Pakistani rupee, at last decided, after the commencement of the Korean War, to recognise it.

Immediately after the devaluation of the rupee, India experienced an increase in her exports, particularly to the dollar areas. But the whole of this improvement in exports cannot be attributed to devaluation. The Government of India's export drive and their policy of severe import restriction were

Rise in Price-Index

also greatly responsible for India's favourable balance of payments after devaluation. As a result of devaluation, the price index rose and the cost of living increased, while capital imports and borrowing from dollar areas became dearer.

Time for reconsideration

In view of a substantial improvement in India's balance of payments position, the urgent need of bringing down the price-level and the necessity for buying capital goods and raw materials for industries at cheaper cost, it seems that the time has come for reconsidering the question.

4 INDIA AND THE INTERNATIONAL MONETARY FUND

India is an original member of the International Monetary Fund. The amount of India's subscription, which was also her quota, was fixed at 400 million dollars. This had to be paid partly in gold and partly in Indian " currency". India has paid by way of her subscription $40,000 in U. S. dollars and the rest in gold and in her "currency".

India as a member slight advantage

The only advantage that India has derived from her membership of the Fund is that she has been able to obtain assistance from it to satisfy her need of dollars. India was running a large deficit in her trade with the dollar area. She has been able to purchase dollars from the Fund from time to time to meet a portion of her deficit. By 1949 she had bought $100 million.

India's membership of the Fund has not only brought advantages but also some obligations to her. Some sections of the Reserve Bank of India Act, 1934, have been amended so that she may fulfil these obligations.

5. INDIA AND THE INTERNATIONAL BANK

International Bank grants two types of loans

While the International Monetary Fund helps member-countries to bridge temporary gaps in their international balance of payments, the International Bank for Reconstruction and Development is supposed to promote the long-range balance of payments equilibrium through the development of their productive resources. The purpose of the Bank is to help in the reconstruction and development of member-countries by facilitating the investment of capital for productive purposes. The Bank makes two types of loans to member-countries, *viz.*, (*i*) reconstruction loans and (*ii*) development loans.

The subscription to the capital stock of the Bank which has been assigned to each member corresponds to its quota in the Fund. India's share amounts to $400 million. India received up to the end of 1950 three loans from the Bank. The first loan was made by the Bank to India on the 18th August, 1949, for financing the purchase of locomotives and boilers. It amounted to $34 million, the period of repayment being 15 years and the rate of interest 4 per cent., including commission. The second loan was granted in September, 1949, amounting to $10 million to finance the import of tractors for reclamation of weed-infested agricultural land. It was for 7 years and the rate of interest was 3½ per cent. The third loan was made in August, 1950, for a period of 20 years and for an amount of $18.5 million at an interest rate of 4 per cent. The purpose was to finance a part of the cost of the Bokaro Thermal Station.

The International Bank has been criticised in recent years for paying much attention to the claims of European countries and neglecting the case of backward and under-developed countries. India has so far derived very little assistance from her connection with the International Bank.[1]

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[1] Details of Indian foreign liabilities and assets are available for the first time by a census conducted by the Reserve Bank of India with the assistance of the Central Ministry of Finance. The report on this census was published by the Reserve Bank of India in February, 1951.

According to the Report India's foreign liabilities stood on June 30, 1948, at Rs. 10,460 million. Of this Rs. 6,480 million pertained to the official sector comprising the various Governments and quasi-Government bodies and Rs. 3,980 million were liabilities on the private sector.

On the same date India's foreign assets stood at Rs. 23,910 million of which Rs. 21,960 million pertained to the official sector comprising sterling assets to a large extent and Rs. 1,950 million to the private sector.

The above figures indicate that on a long-term account assets in the official sector exceeded the liabilities by Rs. 16,300 million but in the private sector liabilities exceeded the assets by Rs. 10,930 million.

CHAPTER XXII

STERLING BALANCES

Between August, 1938-39 and December, 1946, Sterling Securities held in the Issue Department of the Reserve Bank of India increased from Rs. 66.95 crores to Rs. 1,135.32 crores, and balances held abroad in the Banking Department rose from Rs. 4.21 crores to Rs. 485.76 crores. The cause of this huge accumulation of sterling assets in India's favour is to be found principally in the peculiar method of financing the enormous war expenditure of the Allied Governments in India. The Government of India had to find rupee finance for purchases of large quantities of war supplies and was repaid by payments in sterling securities in London. Thus sterling securities continued to accumulate to the credit of the Government of India in London, while notes were issued in India against the sterling securities. Under the provisions of the Reserve Bank of India Act, 1934, the Reserve Bank was under a statutory obligation to convert rupees into sterling and *vice versa*. The second cause of this accumulation of the sterling balances lay in the export surplus enjoyed by India since the beginning of the War.

The accumulation of the sterling balances produced in India the worst form of inflation recorded in history. British officials ruling the country contended that this accumulation had changed the status of India from a debtor to a creditor country by helping to wipe out India's sterling debts. But Indian economists pointed out the other and dismal side of the picture.

On the question of the re-payment of the balances, many British statesmen and financial experts agreed in favour of the entire repudiation or at least of the scaling down of the balances. It was contended that the burden of the military expenditure allocated to India under the "Financial Settlement" was very light, and secondly, that Allied purchases in India were made at highly inflated prices. But both these contentions were untenable. The burden placed upon India was serious and the sacrifices she underwent were greater than those of U. K. and the U. S. A. in proportion to capacity. The balances were accumulated not only through the sufferings and sacrifices of the entire people of India but through the death of fifteen lakhs of people in the Bengal Famine. From the Indian side it was urged that not only must the balances be paid in full but the released sterling should be convertible into dollars.

A number of agreements regarding the utilisation of the sterling balances has been reached between U. K. and India during the last few years.. An *interim* settlement was made on August 14, 1947. Another settlement was made by Sir Sanmukham Chetty, India's Finance Minister, in July, 1948. In 1949, a third settlement was concluded by Dr. John Matthai, the then Finance Minister. The last arrangement was an improvement upon the earlier ones, but it was not wholly satisfactory. All that could be urged in its favour was that the terms were as good as could be expected in view of the conditions under which they were negotiated.

The major defect of these arrangements was that the release of sterling convertible into dollars was in trickles. Ever since the end of World War II, India had been in the grip of a dollar crisis. Her need of dollars for imports of capital goods for the purpose of post-war reconstruction and development was very great; but the convertible sterling released by Great Britain fell far short of her actual needs.

The Sterling Balances were acquired at very great cost and India certainly cannot afford to fritter them away on imports of non-essential goods. But, unfortunately, a large amount has already been spent for meeting adverse trade balances, the purchase of British military stores and installations in India, and the capitalisation of the sterling pensions of British officers who had served in India. The sterling assets have now dwindled down from the peak figure of Rs. 1621.06 crores to Rs. 857.41 crores at the end of June, 1951. The economists and statesmen of India should insist on this remainder of the balances being kept intact and utilised only for nation-building purposes.

CHAPTER XXIII

INFLATION

EVER since the outbreak of World War II, we have been witnessing in India a progressive rise in the prices of commodities. The Economic Advisor's General Index has risen from 100 in August, 1939, to 457.6 in June, 1951. The price situation is most disconcerting and implies the virulence of inflationary forces in the economy of India.

A part of the rise in prices in war time could no doubt be accounted for by a real scarcity of goods, but the explanation of the general level of prices of all commodities rising simultaneously at a rapid rate must be sought in the phenomenal increase in the budgetary expenditure, which the Government of India had to incur on its own behalf as well as on behalf of the Allied Governments. Inflation was the inevitable result of a situation when the increasing flow of purchasing power was not matched by an increasing production of consumers' goods, the productive resources of the country being diverted from civilian to military use. The British and Allied Governments paid for their war expenditure in India by providing sterling in London and against these sterling assets large quantities of notes were issued by the Reserve Bank of India.

At first the official attitude towards the rising level of prices was that it was not inflationary. Sir James Taylor, Governor of the Reserve Bank, observed in August, 1942, that there was no cause and effect relation between the increase in currency and the rise in prices. Sir Jeremy Raisman, in the course of his Budget speech of 1943, observed that the belief that the general rise in prices must mean inflation and that it was caused by an avoidable expansion of currency was the result of confusing cause with effect. It was not until 1944 that India's Finance Member showed any anxiety about the rise in prices and declared that it was his first duty to deal with the menace of inflation.

A five-fold anti-inflationary drive was announced by the Government of India in 1944. One of these measures was the prohibition of the issue of new capital without the previous sanction of the Government of India.

These were feeble measures, and when we consider the steps taken by the advanced countries like the United States and the

United Kingdom to prevent and to check inflation, we find a great contrast between their attitude towards the question and of the Government of India. The anti-inflationary drive proved a failure.

Effect of premature de-control

The end of the War did not bring about a decline in prices. These continued to rise in the post-war years, though at a slow rate and with occasional minor recessions. There was a certain spurt in prices during November, 1947-June, 1948. The main causes of the sudden increase in prices during this period were believed to be not monetary influences, but (1) a premature policy of de-control, (2) deficit budgetting, and (3) declining industrial production, specially for the home market.

Suggestions by Committee of Economists

A number of suggestions was made by the Committee of Economists consulted by the Government of India in the middle of August, 1948. The suggestions included balanced budgets, postponement of E. P. T. refunds, postponement of schemes for prohibition and of abolition of zamindaries, prevention of tax evasion, increase of business profits taxes, and imposition of death duties. Some monetary methods, including the putting of a Ceiling on total note issues and restriction of credit were also recommended. The intensification of control was also suggested.

Price trends during 1949-50

Industrialists and other persons interested in the question also made their suggestions. The Government of India took some feeble steps to meet the situation. After a slight decline during the following six months the price-index showed again a rising tendency. But after the devaluation of September, 1949, there was a fresh development of inflationary forces. A new peak was reached in October, 1949, when the general index touched 393.3, and the Government adoped a comprehensive eight-point programme as part of its anti-inflationary drive. The programme included cuts in the prices of controlled commodities, imposition of export duties on some goods exported to hard currency areas and a plan for compulsory savings applied to Government servants. The anti-inflationary drive of the Government was somewhat successful in the beginning and the index declined to 381.3 in December, 1949. But the first quarter of 1950 witnessed a definite reversal of the index, and after the outbreak of the Korean War, the index rose rapidly. During the week ending June, 1951, the wholesale price index (with the year ended, August, 1939 as base) stood at 459.3 as compared with 458.6, during the former week.

Problem aggravated

The intensification of the problem clearly indicates either the inability or the unwillingness of the Government to control inflation. In any case, it is clear that the Government has failed to discharge its duty in a matter of the greatest importance to the people of the country.

CHAPTER XXIV

THE STATE AND INDUSTRY

East India Company a trading corporation

Laissez faire

THE East India Company was primarily a trading corporation whose chief business was to exchange the manufactured goods of England for the agricultural products of India. Besides, the acceptance of the policy of *laissez faire* or economic individualism in England kept the Government of India more or less aloof from the industrial affairs of the country. The result was that the old industries of the country gradually decayed owing to their inability to withstand an unequal competition, and the artisans were compelled to leave their old occupations and take to the cultivation of land. This increased the pressure of the population upon the land. Another consequence was that India was gradually converted into an exporter of foodstuffs and raw materials and an importer of foreign manufactures.

Need for a change in policy

Government's narrow view

The Famine Commission of 1880 directed the attention of the Government to a policy of diversification of industries as a remedy against the recurrence of famines. In the early years of the present century, some of the Provincial Governments began to take a few practical steps towards industrial development. This policy was disapproved by Lord Morley, then Secretary of State for India. His dictum produced a deadening effect on the initial attempts made by the Government in India for the improvement of industries. Lord Crewe, while re-affirming the decision of his predecessor, limited the functions of the Directors of Industries.

Public agitation

Meantime, Indian public opinion had begun to demand a forward policy in regard to industrial development. The Partition Agitation in Bengal with its programme of *Swadeshi* and the boycott of British goods impressed the people of the country with their helpless industrial situation. Private efforts were made to start industries and to equip the younger generation with mechanical and scientific training. The Industrial Conferences organised by a body of prominent Congressmen and industrialists riveted the attention of the country upon the possibilities of industrial development in India. But the policy of the Government of India was one of hesitancy and non-interference. The result was that the first World War showed clearly and vividly the industrial shortcomings of India, which

Industrial Commission

proved a source of weakness both to India and the Empire. In 1916, an important resolution adopted by the Imperial Legislative Council led to the appointment of an Industrial Commission under the Chairmanship of Sir Thomas Holland. This Commission expressed their regret at the failure of the Government of India to adopt a vigorous and well-thought-out policy for India's industrial expansion, and pointed out that the formulation of a definite industrial policy rested upon the acceptance of two important principles : (1) that in future the Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material ; and (2) that it would be impossible for the Government to undertake that part, unless it should be provided with adequate administrative equipment and forearmed with scientific and reliable technical advice. The Commission suggested that State aid to industries might be rendered in various ways, *e.g.*, research, the survey of natural resources, technical and scientific advice, educational facilities, commercial and industrial intelligence, the establishment of pioneering and demonstration factories, direct financial assistance, and local purchase of stores.

Purchase of stores

Indian Stores Department

Railway Stores

The Munitions Board, established during World War I, for the first time, took substantial steps towards encouraging the local purchase of stores, *i.e.*, articles required for the War. The Stores Department was established with the object of diverting to Indian mills and workshops the large indents which were usually sent to London. Another important line of State-help to industries came from the orders placed by the Railway Board for materials and for construction with Indian concerns.

Protection

The most important step taken by the Government for helping the Indian industries was the adoption of the principle of discriminating protection. The recommendations of the Fiscal Commission of 1922-23 brought about a re-orientation of their economic policy. Acts for granting State-aid to industries requiring financial assistance were passed in several provinces.

Government help after provincial autonomy

The introduction of Provincial Autonomy under the Government of India Act of 1935 gave wide powers to the Provincial Ministers in respect of industries. Active steps were taken in most of the provinces to help the growth of indigenous industries.

M.-C. Reforms regime

Under the Montagu-Chelmsford Reforms the development of industries became a provincial transferred subject, and led to a division of the functions of the Central and Provincial Governments in regard to industrial activities. The financial difficulties of the post-war period rendered the schemes of many Provincial

Activities of the Government in the thirties

Governments infructuous, and consequently progress in this direction was extremely slow. In the following years a few small industries received some attention and help from the Government.

During World War II

During World War II, industrial activity was switched on to the requirements of the War. Towards the end of the War, however, the Government of India prepared a full-fledged policy of industrial development. This was announced in April, 1945.

After Independence

After the attainment of Independence by India the objectives of economic development in the country were laid down in the " Directive Principles of State Policy " of the New Constitution.

Article 38 describes the social order which is sought to be secured. The State is directed " to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of the national life." To achieve such an order, it is enjoined in Article 39 that the State " shall direct its policy towards securing : (*a*) that the citizens, men and women equally, have the right to an adequate means of livelihood ; (*b*) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good ; (*c*) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment ; (*d*) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength ; (*e*) that children and youth are protected against exploitation and against moral and material abandonment."

The further implications of this policy were brought out in Articles 41, 42 and 43.

An Industries Conference was held in December, 1947, which came to certain general conclusions regarding (1) industrial policy, (2) progress needed in industrial production and (3) industrial relations.

Resolution on Industrial Policy, 1948

The broad policies embodied in the " Directive Principles " of the Constitution were emphasised in a Resolution on Industrial Policy issued by the Government of India on April 6, 1948, which are summarised below :

Firstly, the Resolution takes as its starting-point the nation's resolve " to establish a social order where justice and equality of opportunity shall be assured to all people."

Secondly, it lays down that all efforts should be directed to securing an appreciable rise in the standard of living within the shortest possible time.

Thirdly, the Resolution contemplates a mixed economy. There is a sphere reserved for private enterprise and another for public ownership.

Fourthly, the Resolution emphasises the very important role which cottage and small-scale industries have in the national economy.

Fifthly, the Resolution enunciates a policy of social justice and fair labour conditions as an essential basis for harmonious relations between management and labour.

Sixthly, reference is made to the tariff policy of Government. This " will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer."

Seventhly, the policy in regard to foreign capital is that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest.

The Prime Minister reiterated this Policy in the course of a statement made in April, 1949.

The Fiscal Commission of 1949-50 approached the question of industrialisation from a new angle of vision and laid down new principles of protection.

Schemes on hand

As regards the actual carrying out of industrial measures, the following activities are claimed by the Government of India: " The Government have on hand a large number of development schemes some of which are nearing completion while others are still in the initial stages. In the industrial field, the most important undertaking is the Sindri Fertiliser Factory which is expected to produce 1,000 tons of ammonium sulphate per day by March, 1952. The Machine Tool Factory, estimated to cost Rs. 83.7 million is expected to be in full production by 1955-56 when it will produce tools worth Rs. 40 million a year. Rapid progress is being made with the scheme to manufacture penicillin and sulpha drugs and the factory will go into production towards the end of 1952. Work on the factory to manufacture dry-core telephone cables is expected to be in full swing in a few months and production will start in two or three years. The Indian Telephone Industries, Ltd., sponsored by the Governments of India and Mysore, has already started manufacturing some of the parts and full production will begin in 1953-54. With a view to helping the ship-building industry a further order for three ships has been placed with the Scindias by the Government of India.

Measures to raise agricultural output

" As regards measures to raise agricultural output, progress is being made with a net-work of irrigation projects and land reclamation schemes. The Damodar Valley Corporation is proceeding with the first phase of the Project and a provision of Rs. 90 million has been made for the Corporation during 1951-52.

" In the field of labour welfare steps are being taken to implement the scheme for the housing of industrial workers. Besides these State undertakings, Government have also advanced loans to privately-owned key industries to enable these to overcome their difficulties and implement their expansion plans.

National Laboratories

"Lastly, the Government are going ahead with their progress of setting up a chain of National Laboratories all over the country. These laboratories will provide research in the various industries and develop new processes, etc."[1]

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[1] *Indian Trade Bulletin, February,* 18, 1951.

CHAPTER XXV

NATIONAL INCOME

THE wealth of a country is the accumulation of the savings from its annual income. The national income is derived from agriculture, industry, commerce, trade, transport, mining and other gainful occupations. Agricultural production is important, but in the more advanced countries the greater part of their income is derived from their industry, trade and commerce than from their agriculture.

Reliable statistics not available

No reliable statistics relating to the national wealth or the national income of India are available. The average farm production per head per year was calculated at Rs. 40, seventy years ago. In the early eighties of the last century Sir Evelyn Baring (afterwards Lord Cromer) estimated the average *per capita* income of an Indian at Rs. 27 per year; the Finance Commission of 1880 put it at £2. In 1903, Sir Robert Giffen calculated the *per capita* income at about £2 or Rs. 30 per year, and this figure was accepted by the Government of Lord Curzon. But Dadabhai Naoroji and William Digby felt inclined to put it at an even lower figure.

Early Estimates

In the absence of dependable data, the calculation of national income could not be made on a scientific basis. Enquiries into the question of national income have given widely divergent results. The Department of Agriculture in Madras calculated the average income in the Presidency at Rs. 100 in 1921. In Bombay, the net *per capita* income was estimated at Rs. 100 for urban localities and Rs. 75 for rural areas. Mr. Findlay Shirras, in 1922, put the average income per head as high as Rs. 116. There were other authorities who at that time were inclined to bring the figure down to Rs. 50. The average income fell heavily during the economic depression of 1929-33. According to Mr. Shirras, the *per capita* income came down from Rs. 126 in 1924 to Rs. 58 in 1932. Dr. V. K. R. V. Rao's estimate was that the income of British India for 1931-32 amounted to Rs. 16,891 millions and the *per capita* income to Rs. 62. Sir M. Visvesvaraya, the veteran industrialist and statesman, estimated the average income per head in 1934 at Rs. 55.

Later figures also varied largely

The Economic Adviser to the Government of India calculated the net national income at Rs. 55,800 million and the *per capita* income at Rs. 228 in 1946-47. Provisional estimates for the year 1948-49 indicated that the national income was about Rs. 69,680 million and the *per capita* income was Rs. 272. It should be remembered in this connection that all these figures related to the nominal and not the real income.

The *Eastern Economist* estimated the *per capita* income for 1939-40 at Rs. 67 and for 1947-48 at Rs. 160, and after taking the cost of living into consideration, observed : " There is a superstition that our people—particularly the agriculturists—are better clothed and fed than they were before the War. The figures given above will show that this cannot be the case. Indian people are getting poorer."

National Income Investigation Committee's report

A National Income Investigation Committee was appointed by the Government of India in 1949 with Professor P. C. Mahalanabis as Chairman and Prof. D. R. Gadgil and Dr. V. K. R. V. Rao as members. The First Report of this Committee was presented to Parliament on May 5, 1951. This is the first scientific attempt made on a comprehensive scale under the auspices of the Government for estimating the national income of the country. The Committee observes that a correct estimate of the national income and its distribution is essential in order to enable the Government to frame their economic policy on proper lines. The Committee, after emphasising the great difficulties which have to be encountered in the collection of accurate data and the forming of correct estimates, places the national income of India for the year 1948-49 at Rs. 8,710 crores and the *per capita* income at Rs. 255. Of the total estimated national production of Rs. 8,710 crores, the consumer expenditure on food, the Committee observes, " probably amounted to Rs. 4,600 crores or nearly 53 per cent. of the national income." "This high proportion," it adds, " shows, in a general way, the under-developed character of our economy."

Under-developed character of India's economy

CHAPTER XXVI

TRADE POLICY AND PROBLEMS

1. TRADE POLICY

East India Company—a trading body

The Charter granted to the East India Company by Queen Elizabeth in 1600 A.D. marked the commencement of commercial relations between India and England. When, two and a half centuries later, the Company assumed ruling authority over India, it still remained a trading corporation. Naturally, the commercial interest of Britain dominated the trade policy of the Company. This policy continued for a long time even after the assumption of India's administration by the British Crown. It was only in the last phases of British rule in India that some modifications took place in this policy.

Trade Policy before World War II

Before the Second World War, India's foreign trade policy was directed mainly by her need to meet large Home Charges in Britain and the interests of Empire trade. This policy aimed at the creation of an export surplus.

During World War II

During the War, India's foreign trade policy was conditioned by the over-all requirements of the War, and India became the most important supply-base for war materials to the Allies. Imports naturally fell to a trifle while exports greatly expanded, resulting in the accumulation of large balances in England known as the Sterling Balances.

After Independence

On the achievement by India of freedom, her foreign trade policy should now be so directed as to help the development of the country's industry. This idea of India's external trade as a handmaid to her internal development must guide our trade policy in future.

Complications created by Partition

The attempt to formulate an appropriate foreign trade policy for India, best calculated to subserve her needs of economic development both in the short period and the long period, is complicated by several factors in the post-war situation, such as the partition of the country and the extremely critical food situation. While Partition has altered basically our position in respect of a number of industrial raw materials, such as jute and cotton, which now figure so prominently on the import list, the deterioration in food supply has imposed a new and unprecedented heavy strain on our foreign exchange resources.

As India hopes to attain self-sufficiency in both jute and cotton in a few years as well as in food, for which the target date is the end of 1951, the formulation of a long-term foreign trade policy is expected to take effect before long.

Objectives of short-term policy

The principal objective of a short-term foreign trade policy for Independent India will be to correct the disequilibrium in our external trade resulting from an excess of imports over exports.

Objectives of long-term policy

The objectives of a long-term foreign trade policy are defined by the Fiscal Commission to be :

(*i*) to direct the short-term developments along channels which will eventually enable the country to consolidate its position in these fields ;

(*ii*) to promote the pattern of import trade by means of which India can obtain the foreign resource necessary for the development of its agriculture and those cottage, small-scale and large-scale industries which it may wish to develop according to a pre-determined plan of development ; and

(*iii*) to promote a pattern of export trade (*i.e.*, in volume, composition and development) that will enable India (*a*) to pay for its essential imports and (*b*) to specialise in those exports in which it may have a comparative advantage and (*c*) to direct its export trade to those markets in which it will have the least difficulty in maintaining its hold against competition from other countries.

Recent policy faulty

Unfortunately, the trade policy which has been pursued by the Government during the last five years has been marked by vacillation, lack of foresight and want of imagination, with the result that frequent changes have taken place in regard to the regulation of the import as well as the export trade. Such changes have not only hampered industrial development and stood in the way of the normal trade expansion, but have also proved injurious to the economic well-being of the people.

2. POST-WAR TRENDS IN INDIA'S FOREIGN TRADE

World War II changed the course of India's foreign trade to a considerable extent. During the post-war period the partition of the country in August, 1947, and the devaluation of the rupee in September, 1949, were the two major developments, which had far-reaching effects on its trade. The changes brought about by these factors in the pattern of exports and imports are clearly seen from the Table which gives the percentage shares of the three main groups of commodities in the total trade.[1]

Changes in the pattern of trade

Although, as the Table shows, there was a continuous increase in the value of exports as well as imports from year to year under the main groups, the total pattern of trade has changed considerably during the post-war period. In the case of exports, there was an upward trend in the share of manufactured articles and a downward trend in that of raw materials. The post-war period witnessed a marked change towards larger imports under the first group (*viz.*, food, drink and tobacco), while the third group (*viz.*, manufactured articles) showed a trend in the opposite direction. In the case of the raw materials group, there was a slight downward trend in the two years 1946-47 and 1947-48 but after Partition the share of imports increased considerably.

PERCENTAGE SHARES OF THE THREE MAIN CLASSES IN TOTAL VALUE

	of Exports		of Imports	
	1938-39	1949-50	1938-39	1949-50
Class I— Food, Drink and Tobacco	24.0	24.5	15.8	20.7
Class II— Raw Materials ..	45.0	22.0	21.8	29.7
Class III— Manufactured .. articles	29.3	53.0	60.9	48.8
Total ..	98.3	99.5	98.5	99.2
Rest ..	1.7	0.5	1.5	0.8
Grand Total ..	100.0	100.0	100.0	100.0
Value (in crores of Rupees).	(163)	(460)	(152)	(592)

Exports

Important changes took place in the relative importance of commodities of export and import. Exports were confined to a few commodities of major importance. In 1948-49 nearly 66 per cent. of the exports was due to five commodities, namely, jute manufactures, tea, cotton manufactures, raw jute and raw cotton. A significant change noticed during 1949-50, was that 'cotton manufactures' occupied a prominent place next to 'jute manufactures' and was equal in importance to tea.

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[1] An Article by Sri V. N. Murti contributed to the *Reserve Bank Bulletin*, July, 1950.

Imports

Shares of different categories

As regards imports, it will be noticed that imports of capital goods accounted for nearly 17 to 25 per cent. of India's imports during the three post-war years.

Prices of both imports and exports high

Both the export and import prices rose high during the post-war period, the indices in both the cases remaining at a level nearly four times that of the pre-war. The rise in the case of export prices was, however, steeper than in the case of import prices. This difference in price levels resulted in favourable terms of trade to India.

3. FOREIGN TRADE IN 1949-50

Foreign Trade, 1949-50

All-time record

Substantial increase in exports

Smaller increase in imports

Decrease in adverse balance

India's foreign trade for the year 1949-50 reached an all-time record total of Rs. 1,043.23 crores which was more by Rs. 92.15 crores than in the previous year. Export of Indian merchandise improved by Rs. 54.02 crores from Rs. 416.03 crores in 1948-49 to Rs. 470.05 crores in 1949-50 or by 13.0 per cent. Imports also increased, but to a smaller extent than exports. They improved by Rs. 32.79 crores from Rs. 560.02 crores, or by 6.2 per cent. Re-exports rose from Rs. 7.29 crores to Rs. 13.16 crores. Total exports of Indian and foreign merchandise put together, amounted to Rs. 483.21 crores as against Rs. 423.32 crores in the previous year. The adverse balance of trade in merchandise amounted to Rs. 76.81 crores as against Rs. 103.91 crores in the previous year. In other words, the adverse balance declined by Rs. 27.10 crores.

Distribution by States

Distribution of trade according to States shows that West Bengal's share declined while those of Bombay and Madras improved considerably.

Principal suppliers of Indian imports

The principal suppliers of India's imports in 1949-50 were the U. K. (Rs. 149 crores); the U. S. A. (Rs. 88 crores); Egypt (Rs. 39 crores); Australia (Rs. 34 crores); Iran (Rs. 32 crores); and Japan (Rs. 21 crores).

Chief customers of India's exports

The principal customers of Indian produce were: the U. K. (Rs. 111 crores); the U. S. A. (Rs. 78 crores); Australia (Rs. 2.6 crores); Ceylon (Rs. 16 crores); Burma (Rs. 14 crores); Pakistan (Rs. 14 crores); Straits Settlements (Rs. 12 crores); and Canada (Rs. 11 crores).

Measures by which foreign trade was expanded

The substantial expansion in foreign trade was obtained by various measures adopted by the Government of India during the last few years.

Export control liberalised

In order to expand trade, consistently with internal requirements, emphasis was shifted from export control to export promotion.

Export Promotion Committee's recommendations implemented

Steps were taken during the early months of 1950 to implement the recommendations of the Export Promotion Committee set up in 1949 for stepping up exports. As for quality control, it has existed in regard to tobacco and sunn-hemp. In regard to manufactured goods, standards were introduced, with a view to popularising them with foreign countries. The Committee appointed in October, 1949, to enquire into the possibility of establishing a State-owned or State-sponsored organisation for handling sections of the foreign trade of India finished its work and submitted its report.

Import restrictions slightly relaxed

As the balance of payments position improved during the latter half of 1950, the Government of India have decided to permit the free import of certain raw materials essential for the maintenance of industrial production and certain other goods required for maintaining essential supplies in the country.

4. STATE TRADING

Formerly, no participation in trade and industry

State participation in the economic life of the people has in recent years been pressed forward along two main lines, *viz.*, Nationalisation of industries and State Trading. In democratic countries before the thirties of the present century the State took little direct part in actual production and distribution of wealth and mainly exercised certain powers of supervision and control over private traders and manufacturers who were directly responsible for these functions. It created and maintained conditions for the smooth functioning of the self-regulating mechanism of the price system, prevented growth of monopolies, checked the adoption of restrictive practices by businessmen, and enacted and enforced equitable labour laws. The Great Depression of 1929-33, however, brought about an important change in the prevailing conception of State functions, and intervention by the State in the economic sphere began to be advocated as an anti-cyclical measure. It was during the Second World War that the advocates of Nationalisation and of State trading found the most favourable conditions for the support of their view-points.

Change during Great Depression and World War II

Advantages claimed for State trading

In the opinion of some economists, however, the claim that State trading in the form of centralised purchase leads to cheaper buying rests on unverified and presumably untenable grounds. Government purchases are, moreover, liable to be motivated by political considerations with the result that purchases may not always be made from the cheapest market. The Government as a buyer is not also always in a position to drive a hard bargain as is often done in purely commercial transactions in which each party takes the maximum advantage of the technical position of the market at the given moment. Buying or selling requires special training and experience which is different from the equipment of permanent officials nurtured in the civil service tradition.

Centralised purchases are not likely to be cheaper. Even some advantages would entail a heavy price in the shape of a large sacrifice of consumers' choice. The advantages would, moreover, depend upon the quality of the personnel which takes charge of the trading operations of the Government. Inefficiency and liability to corruption, both of which characterise commercial departments of Government, would nullify the advantages, meagre as they are.

Committee on State Trading

Recommendations

In October, 1949, the Government of India appointed a seven-man Committee on State Trading. The Committee recommended the setting up of a special machinery for carrying on the State trading activities of the Government. The machinery consists in a State-sponsored State Trading Corporation with an authorised capital of Rs. 10 crores and an initial capital of Rs. 2 crores. 51 per cent. of the share capital of the Corporation should be owned by the Central Government and the balance shall be offered to the State Governments and private enterprise.

State trade in specific commodities

Limited to foreign trade

The Committee on State Trading also expressed their views about the desirability of State Trading in certain specific commodities. In regard to coal, the Committee recommended that State Trading should continue. It is thus evident that State Trading, as envisaged by the Committee, is limited almost wholly to the sphere of foreign trade.

Serious objection

A serious objection to State trading is that, while the country suffers from the inadequacy of productive capital and has every reason to husband existing resources, utilising them only for new lines of development and the creation of new wealth, State trading would involve the Government in large capital outlay only for the purpose of substituting one type of machinery for another. The new Government machinery would bring the community no additional facilities, but, in all probability, poorer facilities and considerably higher cost.

5. INDIA AND THE INTERNATIONAL TRADE ORGANISATION

After the close of the Second World War, the conviction began to dawn upon leading statesmen that unless conditions of stability and well-being can be created and maintained throughout the world, the establishment of peaceful and friendly relations among the nations of the world would be hardly possible. In February, 1946, the Economic and Social Council of the United Nations passed a resolution with a view to holding an International Conference on Trade and Employment. The Conference met in Havana in 1947 and succeeded in drawing up a charter (known as the 'Havana Charter') for the establishment of an International Trade Organisation. The organization intended to help its members to achieve balanced economic development through mutual collaboration. The Charter was signed by representatives of 54 nations at Havana on March 24, 1948.

Objectives of the Charter

The objectives of the Charter are :

(1) to increase income, demand, production, consumption and exchange of goods ; (2) to foster economic development, particularly of those countries which are still in the early stages of industrial development and to encourage international investment ; (3) to promote equal access of all countries to markets, products and productive facilities ; (4) to reduce tariffs and other barriers to trade and to eliminate discriminatory trade treatment ; (5) to enable countries by increasing their opportunities for trade and economic development and to abstain from measures which would disrupt world trade ; (6) to facilitate through consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practice and commodity policy.

There were various objections urged by Indian industrialists to India's ratifying the Charter. After examining these objections, the Indian Fiscal Commission of 1949-50 made the final recommendation that India should ratify the Charter, provided :

Recommendations

(*i*) that the other countries of major economic importance, including the U. S. A. and U. K., have by then ratified it, and

(*ii*) the economic conditions in the country at the time justify this course.

CHAPTER XXVII

FISCAL POLICY

1. DISCRIMINATING PROTECTION

THE fiscal policy which ought to be adopted by a country at a particular moment should be appropriate to its peculiar circumstances at that moment. All the industrially advanced countries of the world afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundations of the industrial greatness of England and France respectively. Germany, France, the United States, the British Colonies and Japan have for a long time past maintained definitely the policy of protection. The United Kingdom, after having been a free trade country for more than a century, has again become protectionist.

The Fiscal Commission of 1922-23 Its recommendations

The Indian Fiscal Commission of 1922-23 recommended a policy of 'discriminating protection'[1] and laid down the following three conditions for the protection of an industry :

(1) the industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market ;

(2) the industry must be one which without the help of protection is not likely to develop at all, or as rapidly as is desirable, in the interests of the country ;

(3) the industry must be one which will eventually be able to face world-competition without protection.

These conditions were too rigid and unnecessarily restrictive. Besides, there are two classes of industries which deserve special consideration. In the first place, there are some industries which are essential for purpose of national defence, and these should be protected, irrespective of the general conditions mentioned above. Secondly, there are industries of which the products are utilised as raw materials by numerous other industries—these are called ' key or basic industries '—and of which any cessation of import would bring other industries to a standstill.

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[1] The term 'discriminating protection' was first used by Lala Harkisen Lal, the pioneer of industrial and commercial activity in the Punjab. The use of another wise saying stands to the credit of this great man in regard to protection, *viz.*, ' nurse the baby, feed the child, free the adult.'

Discriminating Protection

Tariff Board

Protection to steel industry

The Government of India accepted the policy of 'discriminating protection' as recommended by the Indian Fiscal Commission. They created a Tariff Board to consider the case of every industry that might put forward a claim for protection. The first industry that came under the examination of the Tariff Board was the steel industry. The Tariff Board recommended the grant of protection to it.

Cotton excise duties

The cotton industry was for a long time the chief subject of fiscal controversy. In 1896, two Bills were passed in the teeth of non-official opposition, both in and outside the Council Chamber, by which a direct excise duty of 3½ per cent. was levied on all cotton piece-goods woven by Indian mills, and the import duty of 5 per cent. was reduced to 3½ per cent.

Abolition

Fresh difficulties

Textile Protection Act of 1930

The cotton excise duty imposed in 1894 gave rise to a considerable amount of discontent in the country. In March 1926 it was abolished. This was a measure welcomed by all sections of the community, but it was not adequate for the purpose of placing the cotton industry on a firm basis. The Government was induced to pass in April, 1930, the Cotton Textile Industry (Protection) Bill, which imposed a general *ad valorem* duty of 15 per cent. and also a minimum specific duty of 3½ as. per lb. on plain grey cloth. A special additional duty of 5 per cent. was imposed on all non-British imports of cotton goods. The policy of preference involved in this measure was attacked in the Assembly, but the Bill was ultimately passed, and India had to swallow another dose of Imperial Preference. The economic depression compelled the Government to raise the duties in March, 1931. The cotton industry was given protection in several stages, the last important measure being undertaken in April, 1934.

Paper

A number of other industries was examined with a view to finding out whether protection was necessary. The paper-manufacturing industry was given protection in 1925, by the Bamboo Paper Industry (Protection) Act, based on the recommendations of the Tariff Board. The Act was renewed in 1932 and made operative till the end of March, 1939. The Act which was passed in 1939 reduced the quantum of protection granted to some kinds of paper produced in India. The development that has recently taken place in the local manufacture of paper from bamboo-pulp shows the wisdom of the adoption of the policy of protection.

Protection to sugar

The most important case of protection in the decade preceding World War II was that granted to sugar. As a result of the encouragement given by protection, nearly 130 factories were started during the period 1932-1938. The total production of sugar in India was well above a million tons a year before World War II, and the imports of sugar into India became almost insignificant.

Other industries

Among the other industries to which protection was granted were matches (1928), heavy chemicals (1931), gold thread (1931), salt (1932), silk yarn and piece-goods (1934), etc. In the case of matches, however, the advantage was taken mainly by foreign capital and enterprise. The excise duty imposed on matches in 1934 reduced to some extent the protection granted to the industry. The protection to the salt industry ceased on the 31st March, 1938, when the Salt (Additional Duty) Act was allowed to lapse. In some cases, the claim for protection was turned down by the Tariff Board. Three of the most important of such cases were cement, coal and petroleum.

It is needless to emphasise the importance of a policy of protection in a country like India, where a rapid development of industries cannot possibly be brought about by any other means. The value of the recommendations of the Indian Fiscal Commission (1921-22), restricted though they were in several respects, has by now been appreciated on all sides. The way in which some industries progressed under protection led people to hope that within a short time most of them would be able to stand on their own legs without the assistance of import duties on competing foreign goods.

2. PROTECTION OF INDUSTRIES DURING AND AFTER THE WAR

Second World War

Tariff Board in 1945

During the Second World War, many new industries were started or developed to meet the urgent requirements of the army and the civilian population. In the absence of imports from foreign countries, these newly-established Indian industries were able to get the whole market for themselves. Some of these industries were considered essential by the Government for urgent defence or general civilian requirements and, as early as 1940, the Commerce Member announced that industries which would be started during the War would be protected, if and when necessary, provided they were organized on sound lines. During war-time, such industries received automatic protection due to the operation of direct methods of import control, necessitated by foreign exchange and shipping space considerations. But when the termination of the War was within sight, the Government of India felt it necessary to chalk out their post-war industrial policy and in April, 1945, they announced their intention of constituting a Tariff Board to investigate into the claims for protection or assistance to war-time industries. It was realised in every quarter that the triple formula, adumberated by the Fiscal Commission of 1922, was too rigid in its application.

an *ad hoc* body

This Tariff Board worked essentially as an *ad hoc* body and the period of protection to be granted was also limited to three years. The total number of cases which were referred to the Board was 49. Within a period of 18 months, the Board reported on 42 cases, including 4 cases of industries which had already enjoyed protection before the War. In November, 1947, the Tariff Board was reconstituted for a period of 3 years.

Tariff Board reconstituted in 1947

Protection to cotton industry discontinued

Protection to the cotton textile industry was discontinued with effect from 1st April, 1947. The reasons for this discontinuance, as set forth in the Tariff Board's report, are as follows : (1) the industry has emerged from the War with a very strong financial position and substantial sums have been set aside either as reserves or as compulsory deposits with the Government ; (2) there is no prospect, in the near future, of the Indian textile industry being under-sold, in the face of the world shortage of cotton textiles and the virtual disappearance of Japan as a competitor in this field. On similar grounds, protection has been withdrawn from the paper industry and the iron and steel industry which were so long on the protected list. An assurance, however, was given in all these cases that, should competition revive, a fresh examination of their requirements would be undertaken without undue delay.

Iron and steel and Paper protection withdrawn

Forty war industries protected

As regards industries started during the War, the Tariff Board had to find out which of them possessed potentialities for surviving the artificial conditions created by the War. About 40 industries of this category were picked up for protection, the more important of these being machine tools, grinding wheels, alloy and other kinds of special steel, steel-bailing hoops, ferro-silicon, bichromates, stearic and oleic acid, dry battery, electric motors, plywood and tea chests, steel pipes and tubes, aluminium, calcium chloride, calcium carbide, starch, etc.

Import duties favoured

As a general rule, the Tariff Board favoured protection mainly through import duties, because they were anxious to preserve price competition. But in certain exceptional cases, other methods of protection, such as import quotas or even total prohibition of imports, have been recommended.

Other forms of protection granted in special cases

3. FISCAL COMMISSION, 1949-50

The Fiscal Commission of 1921-22 was charged with a simple task. It was called upon to examine the most appropriate Tariff policy for India in an economic setting in which free trade was the accepted policy and in which a tariff was to be resorted to only where, for special reasons, deviation from the accepted policy was needed for the encouragement of particular industries. Besides, international commercial relations had not yet been seriously affected by any major restraints on trade other than tariffs, while purposive State action to foster and develop the entire economic life of the people was unknown in this country. In this economic context, fiscal policy became almost indistinguishable from tariff policy. But this policy was inadequate in the present circumstances and the need for a new fiscal policy was keenly felt. Therefore, in April, 1949, the Government of India appointed a Fiscal Commission.

Changes in circumstances

The Commission observe that the case for protection to industries in India no longer required to be argued from the first principles and that the old conception of protection as an alternative of commercial policy has long given way to a more pragmatic approach. The Fiscal Commission approach their task from a new angle of vision and lay down new principles of protection. They observe at the outset that Tariff protection is primarily a means to an end—one of the instruments of policy which the State must employ to further the economic development of a country. The protection of industries should be related to an over-all planning of economic development—otherwise there may be unequal distribution of burden and unco-ordinated growth of industries. However, until such a plan has been approved, protection to industries should continue to be granted on the principles given below :

Principles of protection

(A) Industries, coming under the planned sector immediately, may be grouped under the following classes :

Industries under the planned sector

(1) Defence and other strategic industries,
(2) Basic and key industries, and
(3) Other industries.

Industries falling under group (1) should be protected, whatever the cost may be, on national considerations. Regarding basic and key industries coming under the plan, the Tariff Authority will decide the form of protection.

As regards the third category, the Commission recommend that the criteria to be applied for granting protection should be as follows :—

> "Having regard to the economic advantages possessed by the industry or made available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance and/or it is an industry to which it is desirable in the national interest to grant protection or assistance and, having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

Industries not included in plan

(B) As regards industries, which are not included in approved plans, the Tariff Authority should examine the claim for protection on the criteria set out above and submit its recommendations to the Government.

Where no plan exists

(C) Where no approved plan exists, the position should be as follows :

(*i*) Defence and other strategic industries should be given protection whatever the cost may be, on national considerations ;

(*ii*) As regards other industries, the criteria to be applied will be the same as those set out in Section A above.[1]

Some specific issues of protectionist policy are :—

Conditions not to be insisted upon

(*a*) Local availability of raw materials should not be a condition for the grant of protection, if the industry possesses other economic advantages, *e.g.*, internal market, availability of labour, etc.

Potential export market

(*b*) It seems to the Commission legitimate to take into account a potential export market in order to determine the comparative advantages of an industry *vis-a-vis* its rivals.

Ability to meet domestic demand

(*c*) As for the condition regarding the ability of an industry to meet the domestic demand, the Commission think that, although ordinarily a protected industry should be eventually able to satisfy the needs of the entire domestic market, this should not be laid down as a condition of grant of protection and in the short period it would suffice for the Tariff authority to consider the protentialities of the industry for expansion so as to cover a sizeable portion of the internal market within a reasonable period of time.

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[1] Report of the Fiscal Commission, 1949-50.

Industries producing raw materials

(*d*) In regard to protection to industry which produces the raw materials or stores of other industries, the Commission observes that industries using the products of protected industries may require compensatory protection.

New and embryonic industries

(*e*) As for protection to new or embryonic industries, the Commission think that the need for an assurance of protection, prior to the actual establishment of an industry, is particularly strong in those industries which require heavy capital outlay or a high degree of specialisation in personnel and plant equipment and are likely to be subjected to intense competition from well organised and established producers abroad.

Agricultural protection

(*f*) In regard to agricultural protection, the Commission recommend that, if national interests so require, agricultural products may be protected but in granting such protection it should be stipulated that

(1) the number of commodities should be kept as small as possible,
(2) the principle of selection should be
  (*a*) the importance of the raw materials of industry that they provide, and
  (*b*) the volume of employment that they offer,
(3) protection should be on an interim basis limited to short periods—never more than five years at a time,
(4) a programme of agricultural improvement must accompany the scheme of protection and form an integral part of it, and
(5) it should be the special responsibility of the Tariff authority to report to Government annually on the progress of technological improvements in the production of these commodities.

The Commission also urge the protection of cottage industries.

CHAPTER XXVIII

THE UNEMPLOYMENT PROBLEM

1. THE EVIL OF UNEMPLOYMENT

A difficult problem

"THE greatest evil of unemployment", says Lord Beveridge, "is not physical but moral, not the want which it may bring but the hatred and fear which it breeds." Employment, however, is not wanted for the sake of employment, irrespective of what it produces. "Employment is wanted," to quote Lord Beveridge again, "as a means to more consumption or more leisure, as a means to a higher standard of life. Employment which is merely time-wasting or merely destructive, will not serve that purpose. Nor will it be felt as worth while. It must be productive and progressive."

Economists have devoted a considerable amount of attention to the study of unemployment and its remedies, and Governments in most countries have also tried to take steps towards reducing the severity of the miseries caused by it. It has not, however, been possible for anybody up till now to suggest a policy that would prevent unemployment from coming into existence.

It is difficult to measure the precise extent to which the evil of unemployment exists in agricultural and industrial occupations in India. But nobody will deny that the volume of unemployment is large. Besides, the number of persons who may be described as 'under-employed', that is to say, employed for only a part of the year, or a part of the week, or a part of the day, is also very large. The cultivators mostly remain idle for a considerable part of the year, and this fact has to be taken into account in estimating the total volume of unemployment in the country. In the field of industries, the extent of unemployment is great.

Nothing has practically been done in India by the Government for the relief of unemployment among the cultivators or agricultural labourers.

Middle-class unemployment

In recent years, the extent of unemployment among members of the middle-class has been enormous, and the problem has for some time past engaged the attention of the public.

Middle-class unemployment is brought about by a number of factors, social and economic. Lack of initiative and enterprise, unwillingness to enter occupations requiring manual labour, caste-prejudices against certain lines of employment, early marriage and increase of population are some of the factors causing unemployment. The educational system is often blamed because it lays too much emphasis upon 'academic learning' and neglects vocational training. Facilities for vocational and technical training are inadequate, and consequently, the Universities are crowded with students who have to try to become graduates because they have nothing else to do.

Causes of middleclass unemployment

The most effective solution of the problem can come from a more rapid industrialisation of the country. In recent years, industrial concerns, banks and insurance companies have given employment to quite a number of educated young men. But there is even now an immense scope for the development of large-scale industries, commercial and shipping concerns and financial institutions; and, when these are developed, a large number of educated persons may be absorbed by them. The non-Indian firms should employ Indians in the higher positions under them. Larger employment of Indians in the various higher services of Government and the opening of officers' ranks in the Defence Department of the country to a greater extent have helped substantially to ease the situation. The development of small industries can also help to some extent in reducing unemployment. Small industries can be started in district or sub-divisional towns, or even in villages.

Industrialisation, the most effective remedy

The late Lord Keynes and other eminent economists advocated the undertaking of construction of public works in periods of slump and unemployment, if necessary, even by deliberately unbalancing the budget. As a matter of fact, such a policy was adopted in the United States, Great Britain, Germany and some other countries during the depression of 1929-33. But no such deliberate step was ever taken in India.

Public works

An exhaustive enquiry into the unemployment problem was carried out in 1935 in the United Provinces by a Committee under the Chairmanship of Sir Tej Bahadur Sapru. Some of their recommendations were quite good, but the suggestion regarding the lowering of the age-limit for Government service was strongly opposed, and the Government of India dropped the idea.

The Sapru Committee, 1935.

There is no one sure way of solving the problem of unemployment. But industrialisation, rural reconstruction, economic planning, educational reforms and technical training will all contribute to the solution of the problem. It is also worth noticing that employed persons themselves give employment to others

Employment creates employment

through the expenditure on consumption-goods. The relation between secondary employment and primary employment has been studied by Kahn, Keynes and Colin Clark in their analysis of what they have named the 'multiplier'. In a country with a large number of persons with small incomes, the value of the 'multiplier' is likely to be high, because a considerable portion of the increment of income will, in such circumstances, be spent on consumption-goods. Even a small increase in employment in India will in itself cause a further increase on account of the increased demand for goods and services coming from those employed at first.

2. RISE IN FACTORY EMPLOYMENT

Number employed in 1948

Factory employment rises with the prosperity of industry and falls with adversity. The average daily number of workers employed in factories in the Indian Union (excluding Indian States, East Punjab, Bihar ahd West Bengal) in 1948, the latest year for which estimates are now available, was 1,496,648 as compared with 1,430,678 in 1947, showing an increase of 65,970 of 4.6 per cent. Compared with 1939, the pre-war year, when the total number of workers was estimated at 975,656, the figure in 1948 showed an increase of 498,524 or 48 per cent. In 1945, the last year of World War II, the number of workers employed in various factories was 1,519,952. This shows that in 1948, as compared with 1945, the number of factory workers was less to the extent of 23,304 or 1.3 per cent. As compared with 1939, there were changes in the relative positions of the States In 1948. Bombay, which held the second place in 1939, replaced West Bengal from its first place in 1947.

Changes in position of States

3. FULL EMPLOYMENT

Views of eminent economists

While very little effort has so far been made in India to attain even the limited objective of reducing unemployment, some of the industrially advanced countries are placing before them the high ideal of Full Employment. Lord Beveridge and other eminent thinkers consider Full Employment attainable while the conduct of industry, in the main, is confined to private enterprise. The preliminary step taken by the United Nations in this regard is worth noticing.

In response to a Resolution of the Economic and Social Council of the United Nations, adopted on August 11, 1949, a Report was written towards the end of 1949. This Report to the

Programme formulated by Economic and Social Council of U. N.

Secretary-General of the United Nations is an important document; for, in a co-ordinate fashion, it analyses and makes prescription for domestic full employment, short-run stability in foreign trade and long-run equilibrium between the dollar and non-dollar areas.

The proposed measures for the maintenance of domestic full employment can be summarised in four groups :

(1) Measures to stabilise the level of investment, including encouragement to private investment and direct public enterprise ;

(2) Measures to stabilise, or to expand, the level of consumer's outlays, including 'built-in' stabilisers and a variety of fiscal supports to consumption ;

(3) Measures to avoid inflation, including a reversal of expansion techniques, if necessary, and institutional arrangements to avoid monopolistic exploitation by special groups of full-employment conditions ;

(4) Measures to stabilise employment and income in distinctively export industries, including subsidies to domestic consumption of their products and international price (or direct-income stabilisation) schemes, for primary products.

Its failure

The programme as a whole had failed to meet its full objective, and further measures, quite possibly beyond the automatic measures, were required.

4. EMPLOYMENT SERVICE ORGANISATION

Origin

India was a signatory to the Unemployment Convention which was adopted at the International Labour Conference held at Washington in 1919. This Convention provided for the establishment of free public employment agencies and for the appointment of Committees composed of employers' and workers' representatives to advise on the functioning of these agencies, but she had to denounce it later on account of constitutional difficulties. It was not until July, 1945, when, with the end of the War in sight, a properly organised Employment Service was set up, as an experimental measure, primarily with the object of facilitating the orderly absorption in civil life of the large service personnel and war workers who had been set free.

Expansion and re-organisation needed

We have now got the beginnings of a National Employment Service which, properly expanded and adequately co-ordinated, can be harnessed to the best use of a planned economy.

Training of labour

One of the main defects of our labouring population is their lack of skill and training. If our labour productivity is to go up, more and expanded facilities for training must be made available. Employment of human labour may either be wasteful and unproductive, or useful and productive. A serious attempt should be made in India to employ labour in the most productive manner possible.

Main objectives

The main objectives of the Employment Service Organisation are the following :—(1) to place ex-service men and war workers in employment; (2) to increase the mobility of labour, territorial and occupational; (3) to substitute a free, impartial and scientific system of labour recruitment for the vicious system of recruitment through jobbers and contractors; (4) to provide the necessary machinery for the subsequent adoption of social security measures by the State and (5) ultimately, to promote full employment.

Organisations

Responsibility for administering the re-settlement and employment schemes of the Government are vested in the Directorate General of Re-settlement and Employment. A number of Regional Directorates has also been created with suitable provision for planning, training, administration, publicity and collection of statistics.

Registrations and placements

Up to April, 1950, the number of registrations amounted to 35,15,309 and the number of placements totalled 8,82,712. The number of displaced persons included in the total of placements was 1,33,555.

Three aspects of unemployment

In India, the unemployment problem in the post-war years has three principal aspects : First, the economic under-employment among the rural population; secondly, the peculiar type of unemployment that is to be found among the middle-classes to which intellectuals and other soft-handed workers belong; and, lastly, the widespread unemployment among the vast masses of displaced persons who have migrated from Pakistan to India.

As regards the first, the problem can be tackled by the planning of agricultural production. In this connection it is essential that cottage industries should also be revitalised. The unemployment problem among the middle-classes can be solved in the long run by a re-orientation of our educational system, so as to divert the talents and energies of the majority of would-be University graduates to more practical avenues of technical training and apprenticeship.

The re-settlement of displaced persons is a problem which should be tackled on an all-India basis according to a well-thought-out plan helping to adjust all categories of displaced workers to their new surroundings, so that the new-comers may prove helpful to the original inhabitants and cordiality may prevail among the two sections.

Suggestions

The need for vigorous State-action is urgent. The Central Government as well as the State Governments should adopt effective measures to combat the evil of unemployment. Private enterprise can never be expected to operate to the extent and in the manner most desirable from the stand-point of the unemployed. It is because of this fact that the necessity of State-help is greater in this particular field than in any other.

CHAPTER XXIX

ECONOMIC PLANNING

1. EARLY IDEAS

The post-war depression and the need for planning

THROUGHOUT the nineteenth century, it was the prevailing idea in many countries that the development of industries should be the function of individuals, and that the State should not attempt in any way to interfere in any aspect of industry and commerce. The World War of 1914-18, however, marked the end of *laissez faire*, and in the post-war years there was some amount of control and regulation of industries in every country. It is now recognised on all hands that the free play of private interests does not secure results that are most desirable from the social point of view. When private individuals are left alone to decide how they will utilise the resources available, wastage of materials on one side and lop-sided development on the other are inevitable. Besides, trade cycles are essentially connected with the injudicious course of investment and monetary policy which a competitive economy entails. Therefore, in order to secure the proper utilisation of the resources of the community, the exercise of control over the development of industries is accepted everywhere in the present times.

Soviet Russia and U. S. A.

Economic planning, however, denotes more than mere control and regulation. It implies a calculated effort on the part of the State to secure within a given period of time the maximum of well-being for the members of the community by the most economic allocation and utilisation of the available amount of resources. It is this sort of economic programme that was undertaken by Soviet Russia in 1928. In the U. S. A., the Recovery Plan of President Roosevelt also provided an example of a deliberate attempt to neutralise the effects of the depression by industrial regulations and agricultural adjustments.

Need for planning in India

The depression of 1929-33 emphasised the need for a planned economy to prevent the recurrence of such situations. In a country like India, the necessity of planning is greater than in other countries. If the defects and shortcomings of the economic life of India have to be remedied, a well-defined programme of action is absolutely essential.

Some amount of planning already operative in India

In a sense, some amount of planning is already operative in India. Discriminating protection, restrictions on imports and exports, debt-legislation, regulation of banking and labour laws are all different aspects of economic planning. But these programmes have been adopted without any definite or ultimate aim in view, and as a result they do not form parts of an organic whole.

Lack of statistics and information

Ends of economic planning

No scheme of planning can be launched unless a comprehensive knowledge of all the means of production available in the country has been acquired. The other important pre-requisite of planning is that the authority in charge of it should have in view a well-defined end which they are to attain within the time available.

Special difficulties in India

In India, special difficulties in the way of economic planning are many. Planning involves a considerable amount of control over the economic and social life of the citizens. A difficulty arises in India on account of the large powers vested in the State Governments under the New Constitution. A successful plan involves unified action by a central authority, and in this respect the existence of autonomous States will make the administration of an all-India plan difficult.

Financing of planning

These practical and constitutional difficulties may limit considerably the scope of a planned economy in India. Another serious difficulty that will have to be faced is that of finance. Sir M. Visvesvaraya estimated in 1934 that a comprehensive programme of development, including a ten-year plan for the whole of India and five-year plans for the provinces, would necessitate a capital expenditure of Rs. 500 crores and a recurrent expenditure of Rs. 10 crores annually.

National Planning Committee, 1938

A new spurt to the discussions regarding economic planning was given in 1938 by the Indian National Congress under the Presidentship of Sri Subhas Chandra Bose, which appointed a National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru, to enquire into the possibilities of a planned economy in India and to suggest practicable schemes for securing the desired end. The Committee commenced work soon after its appointment. World War II, however, upset the original arrangements and it was not until 1946 that actual work was commenced in right earnest.

2. PLANNING DURING AND AFTER WORLD WAR II

Congress Committee on Planning

In the view of the Congress Committee, planning was to be a "technical co-ordination by disinterested experts of consumption, production, investment, trade and income distribution in accordance with social objectives set up by organs representative of the nation."

Slogans

While the slogans of the First World War were mainly political, those of the last War were essentially economic, such as 'freedom from hunger', 'full employment,' 'war on disease', 'a living wage for all', etc.

Reconstruction committees set up by Government of India

In March, 1943, a Reconstruction Committee of the Executive Council of the Government of India was set up, together with a number of Policy Committees and a Consultative Committee of Economists.

New planning department under Sir A. Dalal

In July, 1944, the Government of India created a new Department of Planning and Development with Sir Ardeshir Dalal, one of the signatories to the Bombay Plan, as Member-in-charge. The new Department of the Government of India issued a statement on the Industrial Policy of the Government on the 21st April, 1945.

Provinces asked to prepare plans

Meantime, the Government of India had issued instructions to all Provincial Governments to prepare their own plans of post-war development.

Private plans :
Bombay plan

People's Plan

Gandhian Plan

Sir Visvesvaraya's Plan

Planning during the War was not, however, confined to Government Departments alone. The Bombay Plan, drafted by a group of eight economists and industrialists, including Sir Purushottamdas Thakurdas, Mr. J. R. D. Tata, Mr. G. D. Birla, Sir Ardeshir Dalal and Dr. John Matthai, appeared in January, 1944. Among other non-official plans, mention may be made of the People's Plan drafted by Mr. M. N. Roy on behalf of the Post-War Reconstruction Committee of the Indian Federation of Labour and of the Gandhian Plan drafted by Mr. S. N. Agarwal, Principal of the Wardha College of Commerce. Sir M. Visvesvaraya, whose pioneer work on planning had first appeared in 1934, published a brochure on Reconstruction in Post-War India in September, 1944, in which he gave his general approval to the proposals contained in the Bombay Plan.

Objectives of Planning

According to the National Planning Committee of India, planning had not only to be considered from the point of view of Economics and the raising of the standard of living but it must also include cultural and spiritual values and the human side of life.

The National Planning Committee recommended a doubling or trebling of the standard of living and of production during the following ten years. According to the authors of the Bombay Plan, the ultimate object of planning in India should be an increase in the volume of India's economic production to the fullest extent to which its natural resources would allow. For an immediate objective they recommended a doubling of the *per capita* income within a period of fifteen years of the inauguration of the Plan.

The Gandhian Plan of Mr. Agarwal laid down a basic standard of life for the Indian people to which their present material and cultural level should be raised within a period of ten years. This Plan aimed at a four-fold increase in the *per capita* income in order to secure all the basic necessaries of life and a minimum standard of comfort.

Financing of plans

Machinery for carrying out the plans

Adequate finance is an indispensable condition of the success of all planning. A suitable machinery for carrying out the plans is no less important.

Plans examined

We may now examine some of the plans which have been formulated in recent years for the economic development of India. These plans may be divided into three categories according to their authorship, *viz.*, (*a*) Provincial Plans, that is, those prepared by Provincial Governments, (*b*) Central Plans, that is, those prepared by the Departments of the Central Government and (*c*) Private Plans, that is, those prepared by private individuals and bodies.

Main Features of the Provincial Plans

The total cost of the Provincial Plans was estimated at Rs. 776 crores. The main proposals for development under the Provincial Plans are : (*i*) Irrigation, Electric Power and Flood Control ; Roads ; Agriculture ; Industries ; Education ; Medical and Public Health.

Central Plans

The total capital expenditure to be undertaken by the Centre in respect of subjects falling within their sphere of responsibility was approximately Rs. 519 crores.

Private Plans

Of the private plans, the total financial requirements of the Bombay Plan (including capital expenditure as well as recurring expenditure) were estimated roughly at Rs. 10,000 crores.

The sources of finance for the implementation of this Plan were indicated as follows :—

	(Rs. crores)
External Finance :	
Hoarded wealth, mainly gold	300
Sterling Securities	1,000
Balance of Trade	600
Foreign Borrowing	700
Total	2,600
Internal Finance :	
Savings	4,000
Created Money	3,400
Total	7,400
Grand Total	10,000

The chief merit of this Plan is its boldness. But the measures proposed for raising funds are wholly impracticable. The proposal to create money, that is to say, to print more notes, is a most dangerous one, particularly at a time when the country is groaning under an extremely heavy load of high prices.

Planning Commission, 1950

The setting up of a National Planning Commission for India under the Chairmanship of the Prime Minister, to co-ordinate Central and State Plans, lay down priorities and fix targets, was announced by Dr. John Matthai on February 28, 1950, while delivering his Budget speech for 1950-51.

An interim report was submitted by the Commission on the 25th of October, 1950, dealing with the irrigation and river-valley projects.

Finance most essential

As there is little likelihood of substantial budget surpluses in the near future, it is too early to express any opinion on the work of the Commission. But the question of funds does not seem to have received the attention it needed. Additional taxation, internal loans, external borrowing and resort to the Printing Press are all matters involving great—almost insuperable—difficulties at the present moment. If adequate finance can be secured, the Commission's labours will bear fruit and the country will reap much benefit. But if finance be unavailable, the Commission's Plan will be a mere addition to the many paper-schemes which have already been evolved and the cost of the undertaking will be regarded as sheer waste of money.

Opposition to Planning by eminent economists

Plans are now being adopted not only in totalitarian countries, but also in democracies. There are, however, some sincere anti-planners like Prof. Hayek and Prof. Jewkes who point out many serious objections to planning. The three minimum pre-conditions of planning are that the civil service must be reasonably efficient and honest, citizens should be reasonably ready to pay their taxes and, lastly, the conception of respecting the regulations laid down by the Government must be reasonably widespread. According to Barbara Ward, these pre-conditions are absent in many countries. The suitability of large-scale planning on a Governmental basis in India would depend upon the extent to which the three pre-conditions are fulfilled in this country.

Hayek's view

It is urged by some economists that, while planning may be good for autocratic countries, it is not possible to plan at all in a democratic way. According to Professor Hayek, planning is the road to serfdom. On this aspect of the question, opinion is divided. In any case, free nations cannot use some of the instruments of planning available to the totalitarian countries.

Compulsion, which is essential for giving effect to planning measures, has only a limited scope in democratic countries.

Opinion of the United Nations' Committee

The bulk of modern opinion is, however, in favour of planning even in democratic countries, and it is urged that it is possible to plan in such a manner as to preserve the essentials of democratic institutions and the democratic way of life. In a recent publication of the United Nations, a group of experts, who made a special study of this aspect of the question, record their views as follows : " In countries in which there is a considerable degree of central direction of the economic system, the mechanism of planning and control can be used to ensure that all available labour is in fact employed. In countries which rely primarily on the system of private enterprise, concern is sometimes expressed lest a policy of full employment may entail the introduction of controls of a type considered foreign to their economic institutions. In our view, however, the steps required to promote full employment in free enterprise economics are fully consistent with the institutions of such countries."

Dr. Matthai's view

Dr. Matthai who, as Finance Minister, had announced the formation of the Planning Commission in the course of his Budget speech, resigned three months later over the issue of the Commission. He said that the Commission was " not merely ill-timed, but in its working and general set-up ill-conceived." In his view the Planning Commission was unnecessary, as there were already on the shelves of the various Ministries of the Government plans costing nearly Rs. 3,000 crores, which had been held up for lack of finance, materials and technical personnel. " What is required at present," he said, " is first to draw up a strict order of priority for the existing plans on the available real resources of the country, and, secondly, to work out the existing plans in detail at the technical end because no blue-print can be put into execution until the technical issues have been worked out." The Planning Commission of the kind set up in India was " hardly qualified for the work." Dr. Matthai also criticised strongly the methods of working of the Planning Commission.

The Draft Outline of the final Report produced by the Planning Commission was published on the 8th July, 1951. It contains tentative recommendations covering all aspects of planning. The Plan is divided into two parts. In the first part of the Plan, the priorities are :

(1) completing of programmes in hand, including rehabilitation of displaced persons ;

(2) increasing the production of food and raw materials over a relatively short period ;

(3) implementing schemes essential for developing material and technical resources and enlarging the scope for employment ;

(4) consolidating progress already made in social services and providing for gradual expansion ; and

(5) providing for more adequate administrative and social services and a more rapid rate of development in the less developed States.

The first part involves an expenditure of Rs. 1,493 crores, and is expected to restore, more or less, the pre-war availability of essential consumer goods by the end of 1955-56, taking into account the expected increase in population over the period.

The second part of the Plan, involving an expenditure of Rs. 300 crores, is intended to ensure a somewhat higher rate of development during the next five years.

The first part of the Plan, according to the Commission, should be implemented by the country at all costs. The second part will be taken up if sufficient external assistance becomes available.

The principal emphasis in the Plan is on agriculture and irrigation. For industrial expansion the Commission stresses the importance of the development of small-scale industries along with large-scale industries. Cottage industries are assigned a central place in the programme of rural development. The Plan makes provision for the development of railways, roads, shipping and civil aviation. The contemplated sources of finance include the tapping of internal resources both of the Centre and the States, as well as external assistance. As regards the latter source, the Commission observes : " If external assistance on a sufficient scale becomes available, it would be possible to implement the first part of the Five-year Plan without undue strain and, at the same time, to implement the second part of the Plan." It should be remembered, however, that all appeals for external assistance have so far proved practically infructuous.

APPENDIX A

INDIAN CURRENCY

1 Pie =1/12 anna.
4 Pice =1 anna.
1 Rupee (16 annas) =1*s*. 6*d*. or 21 cents.
Rs. 100 =£7-9-6 or 21 dollars.
Rs. 1,000 =£74-14-10 or 210 dollars.
Rs. 1,00,000 (one lakh) =£7,473-19-2 or 21,000 dollars.
Rs. 1,00,00,000 (one crore) =£747,395-16-8 or 2,100,000 dollars.

APPENDIX B

BALANCE OF TRADE

	1938-39	1948-49	1949-50
		(In lakhas of Rupees)	
MERCHANDISE :			
Imports	1,55,55	5,42,92	5,60,07
Total Exports ..	1,69,83	4,23,32	4,72,90
Balance	+14,28	−1,19,60	−87,17
TREASURE :			
Balance of Transactions in Treasure	+11,38	−84	−4
TOTAL VISIBLE BALANCE OF TRADE	+25,65	−1,20,43	−87,21

Reserve Bank of India Bulletin, September, 1950.

APPENDIX C

STATISTICS OF NATIONAL INCOME (1948-49)

Population	341.04 millions
Net National income	Rs. 8,710 crores
Per Capita income	Rs. 255
Net domestic product at factory cost ..	Rs. 8,730 crores
Net National product at market prices ..	Rs. 9,170 crores
Net output per engaged person in Agriculture	Rs. 500
Mining and Factory establishments ..	Rs. 1,700
Small enterprises	Rs. 600
Commerce, transport and communications	Rs. 1,600
Professions (including miscellaneous services)	Rs. 600
Government services (administration) ..	Rs. 1,300
Domestic service	Rs. 400
Net output of—	
Government enterprises	Rs. 300 crores
Government administration	Rs. 460 crores
Private sector	Rs. 7,970 crores
Government share in National expenditure ..	Rs. 840 crores
Government draft on private income ..	Rs. 690 crores

3-9-51